Polyus Gold International
Annual report 2013

POLYUS

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About this report

Verninskoye. Mining operations.

In this Annual report the terms Polyus Gold International Limited (PGIL), Polyus Gold, Polyus and Group refer to Polyus Gold International Limited together with its subsidiaries, whose financial results are consolidated by PGIL when preparing the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

In this Report, percentage movements are based on the audited numbers disclosed in the consolidated financial statements for the year ended 31 December 2013, as well as on unrounded operational numbers, and not on the high-level rounded numbers (i.e. billions or millions of USD or oz) and therefore there may appear to be some inconsistencies due to the rounding of numbers.

The comparative operational and financial information for the year ended 31 December 2012 reflects adjustments made in connection with the early adoption of IFRIC 20 (refer to note 2 to the consolidated financial statements) in the consolidated financial statements of the Group for the year ended 31 December 2012 and with the presentation of the effect of discontinued operations following the sale of operating subsidiaries in Kazakhstan and Kyrgyzstan.

Contents

Krasnoyarsk region

The Putorana Plateau, 1,700 metres above sea level, is a UNESCO World Heritage Site.

Overview

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1. Overview

1.1. Polyus at a glance

Polyus Gold International Limited (PGIL) is the largest gold producer in Russia and one of the top 10 gold miners globally by ounces produced (1.65 m oz in 2013).

The Group holds the world's third-largest gold reserves, with almost 83.1 m oz of proved and probable JORC[1] reserves.

Our principal operations are located in Russia's most prolific gold mining provinces in Eastern Siberia and the Far East and include five operating mines, alluvial operations and one mine under development.

The Group's flagship mine is Olimpiada, our largest gold mine and one of the largest gold deposits in Russia. The Olimpiada mine contributed 42% of the Group's total gold output in 2013, and represents a 36% share of the Group's JORC proved and probable reserves and 37% of the Group's measured, indicated and inferred resources.

The Natalka mine, which is currently under development, will become the largest mine in the Group. The Natalka deposit has 32 m oz of JORC proved and probable reserves and 60 m oz of measured, indicated and inferred resources.

PGIL has a premium listing on the London Stock Exchange (ticker: PGIL) and is the largest London-listed gold producer by gold output and reserves. The Company is a constituent of the STOXX Europe 600 Index, the FTSE Global Equity Index Series and the FTSE All World Equity Index Series. Additionally, PGIL's Global Depository Receipts (GDRs) are traded over the counter in the US (ticker: PLZLY). As of 31 December 2013, the Group's market capitalisation was approximately USD 9.3 billion.

[1] Please refer to Glossary on page 213 for definition.

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Blagodatnoye. Processing plant.

PGIL's shareholders structure as of 31 December 2013

Shareholder	Holding, %
Wandle Holdings Limited	40.2
Lizarazu Limited	18.5
Wamika Trading Limited	10.0
Receza Limited	9.3
Free float	22.0
Total	100.0

Information on PGIL's shares

Number of shares issued	3,032,149,962
Highest share price during 2013, GBP/share	2.30 (8 February 2013)
Lowest share price during 2013, GBP/share	1.88 (4 December 2013)
Average daily traded volume, (ADTV) (LSE), USD million	8.7
Share price at 31 December 2013, GBP/share	1.99
Market capitalisation at 31 December 2013, USD billion	9.3
SEDOL	B5WLXH3
ISIN number	JE00B5WLXH36

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1.2. Performance

Financial highlights

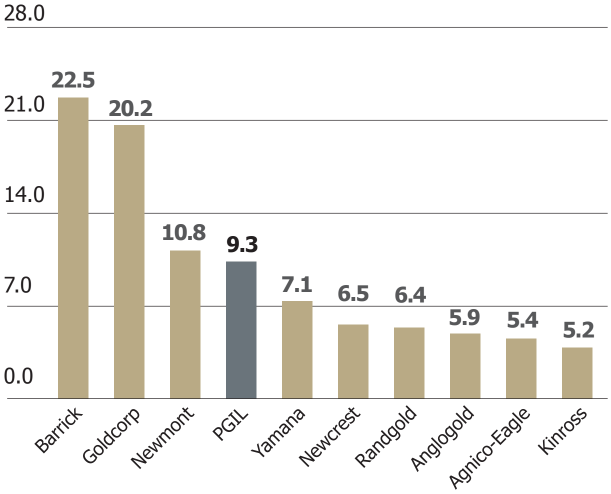
- Gold sales of USD 2.3 billion, down 14% on 2012;
- adjusted EBITDA[1] of USD 910 million;
- TCC[2] and AISC[3] per oz sold of USD 707 (up just 1%) and USD 1,002 (down 1%) respectively;
- impairment of USD 472 million was recognised, primary related to the Nezhdaninskoye and Degdekanskoye deposits at the exploration stage and Kuranakh mine;
- adjusted profit for the year from continuing operations[4] of USD 564 million, and
- adjusted EPS[5] of 17 US cents (FY 2012: 32 US cents).

Operational highlights

- Refined gold sales for the year of 1,631 k oz, a 4% increase on 2012;
- refined gold production of 1,649 k oz, a 5% increase over 2012 production;
- a two-fold increase in gold production at Verninskoye as it reached its ore throughput ore throughput design capacity;
- a 6% increase in gold output at Olimpiada due to improvement in recovery rates;
- automation of processing plants completed at Blagodatnoye and Verninskoye, and
- capital expenditure increased 78% to USD 1,440 million, with major investments in the development of the Natalka project.

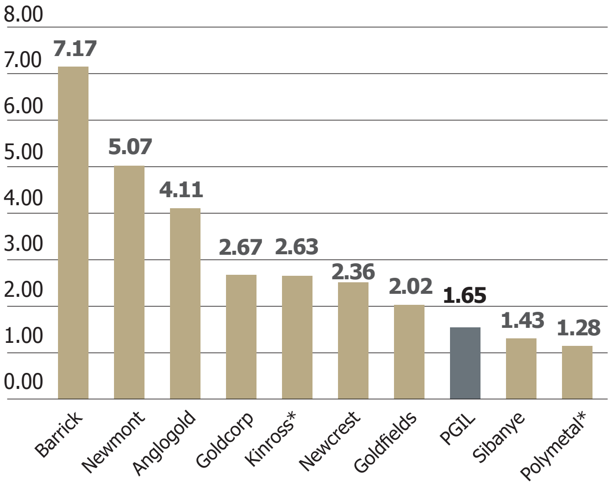
Industry comparisons

Largest global gold mining companies by market capitalisation as at 31/12/2013, USD bln



Source: Bloomberg.

Top-10 global gold producers in 2013, m oz produced



* Gold equivalent. Source: Companies websites.

1 Adjusted EBITDA – for a definition and calculation refer to section 2.8.10.
2 TCC per oz sold – for a definition and the calculation used refer to section 2.8.11.
3 All-in sustaining costs per oz sold – for a definition and calculation refer to section 2.8.12.
4 Adjusted profit for the year from continuing operations represents profit from continuing operations before impairment charges.
5 Adjusted earnings per share represents adjusted profit from continuing operations attributable to the shareholders of the Company divided by the weighted average number of ordinary shares.

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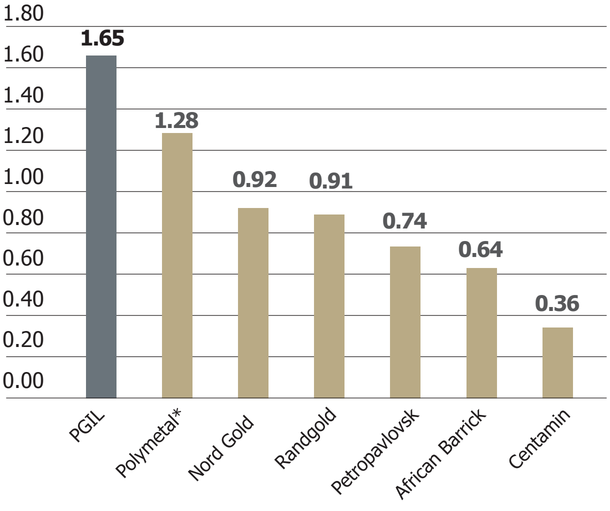
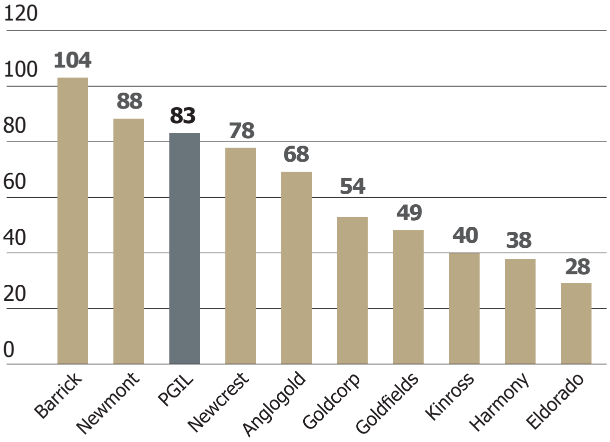
LSE-listed gold producers in 2013, m oz produced



* Gold equivalent.

Source: Companies websites.

Largest global gold mining companies by JORC Proved and Probable gold reserves (m oz)*



* Latest available disclosure.
Source: Companies websites.

Corporate update

On 22 February 2013, the ONEXIM Group sold its 37.8% holding in the Company. Lizarazu Limited (a company associated with Zelimkhan Mutsoev) purchased 18.5% of the Company's shares and Receza Limited and Wamika Trading Limited (both companies associated with Gavriil Yushvaev) purchased the remaining 19.3% of the issued share capital of the Company.

On 28 February 2013, PGIL disposed of its assets in Kazakhstan and Kyrgyzstan to a consortium, consisting of Institute Project B.V. Financial Services B.V. and Folkstand Consortium Limited for a total consideration of USD 297 million.

On 21 March 2013, Igor Gorin was nominated by Receza Limited and Wamika Trading Limited to the Board as a Non-Executive Director.

On 29 April 2013, the Company issued USD 750 million Notes due in 2020 with a coupon of 5.625% per annum. The Notes are guaranteed by CJSC "Polyus", an indirect subsidiary of the Company.

On 31 May 2013, Robert Buchan resigned as Chairman and as a director of the Company.

On 23 August 2013, Zelimkhan Mutsoev sold his ownership interest of 18.5% of the ordinary shares of the Company to Amirkhan Mori.

On 4 October 2013, Ilya Yuzhanov and Edward Dowling were appointed to the Board as independent Non-Executive Directors. Ilya Yuzhanov was also elected Chairman of the Board.

On 13 November 2013, Lord Clanwilliam resigned from the Board and Pavel Grachev was nominated to the Board by Wandle Holdings Limited as a Non-Executive Director.

On 27 November 2013, German Pikhoya resigned as CEO and a director of the Company and Pavel Grachev took on the responsibilities of Interim Chief Executive Officer of the Company until a new CEO is appointed.

On 27 February 2014, the Company received notice from its Chief Financial Officer, Oleg Ignatov that he wished to resign from his position as CFO in order to pursue other activities. On 27 March 2014, Mikhail Stiskin, formerly Deputy CEO for Strategy and Corporate Development, was appointed Chief Financial Officer of Polyus Gold.

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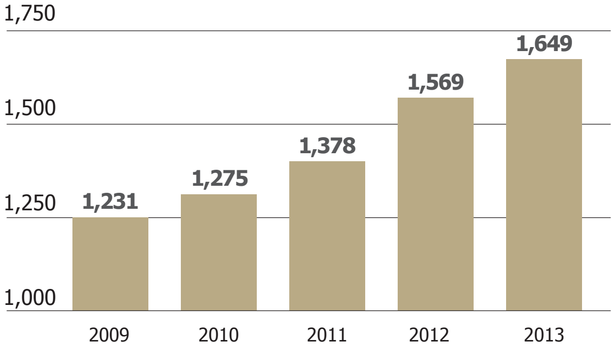
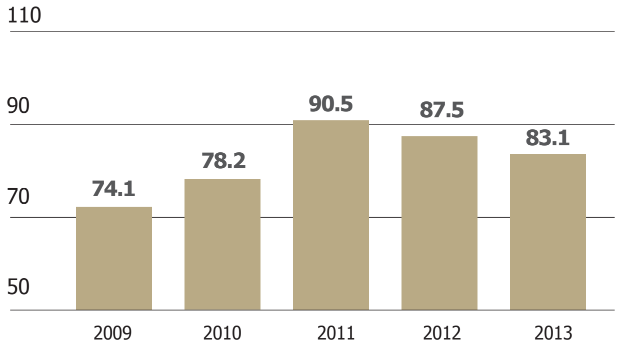
1.3. Track record

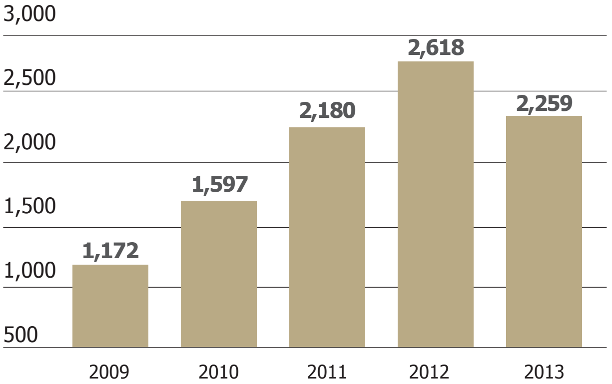
Gold production, k oz[1]



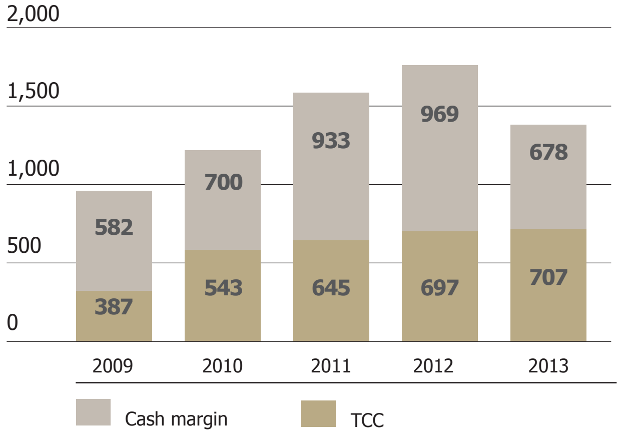
JORC proved and probable reserves, m oz



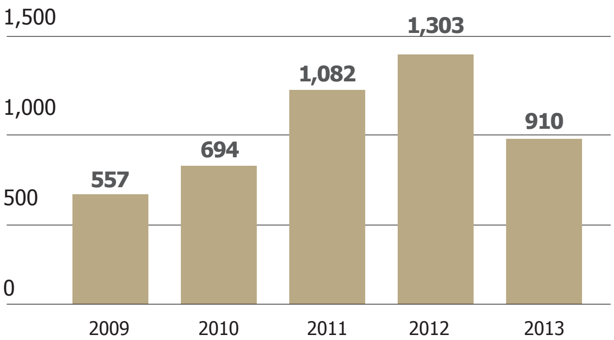
Gold sales revenue, USD million[1]



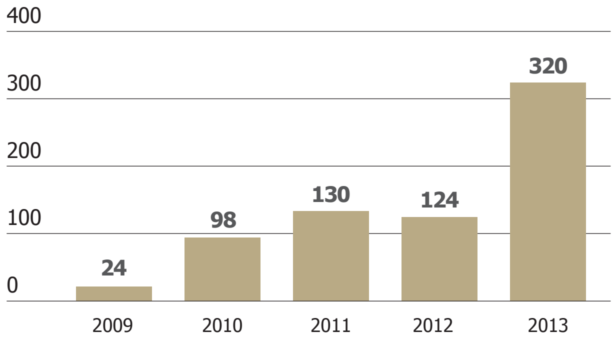
TCC and cash margin per oz sold, USD/oz[1, 2]



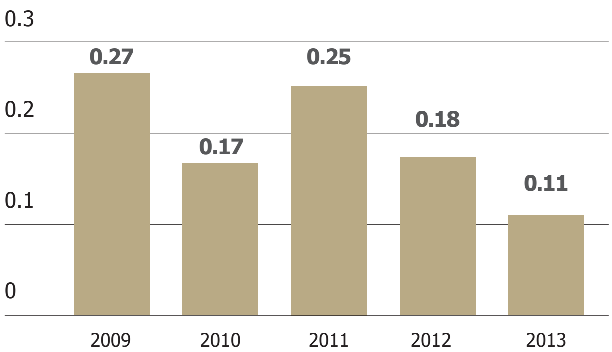
Adjusted EBITDA, USD million[1]



Total dividends paid during the year, USD million



LTIFR[3], per 200,000 hours worked



[1] Excluding mining assets in Kazakhstan and Kyrgyzstan.
[2] Cash margin is calculated as difference between Average realised gold price and TCC per oz sold.
[3] For definition refer to section 3 "Sustainability report".

1.4. Market review

In addition to its use in jewellery, electronics and dentistry, gold provides a convenient means to store wealth for a variety of investors, from individuals to state central banks. In 2013, gold supply to the global market decreased by 2% to 4,340 tonnes. Total demand declined by 15% to 3,756 tonnes. This decrease can be attributed to a 32% drop in central bank net purchases which was almost offset by a 28% increase in bar and coin demand by physical individuals to 1,654 tonnes. The annual average gold price declined 15% to USD 1,411 per oz.

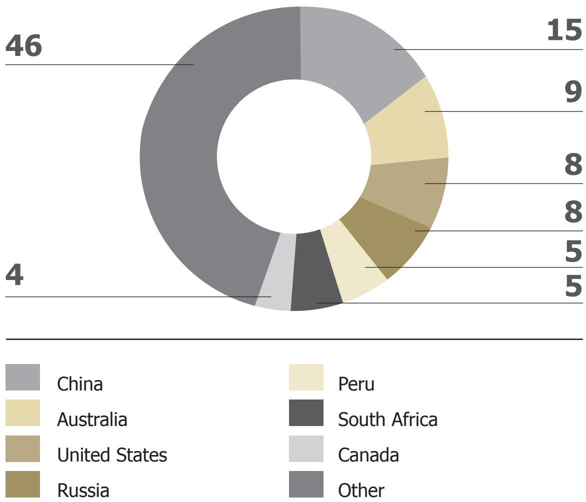
Supply

According to the World Gold Council (WGC), global gold production increased by 5% in 2013 to 3,019 tonnes, demonstrating the inelastic nature of production in the industry in 2013. Production was strong across most regions, in particular Asia, Latin America and the Commonwealth of Independent States (CIS). Africa was the outlier, because of the continued drop in output in South Africa. The industry's response to declining gold prices has been to focus on cost management. Action to control operating costs has been widespread and, where possible, capital expenditure is being scaled back or deferred, although to-date, mine closures have been limited.

According to data from the United States Geological Survey (USGS), in 2013, Russia was the fourth largest producer, with an output of 220 tonnes, an increase of 1% over 2012.

Another significant source of supply to the global market is recycled gold (gold scrap). However, in 2013, supply of scrap again decreased to 1,371 tonnes, dropping to a five-year low as the gold price fell 29% over the year. Across the world, lower prices reduced the incentive for consumers to liquidate gold assets. Scrap receipts from the US, Europe and South-East Asia fell by 10-20%.

Largest gold-producing countries (2013, %)



Source: US Geological Survey.

Demand

The jewellery industry is the largest consumer of gold and the strongest demand comes from jewellery manufacturers in India and China. In 2013, demand for gold in the jewellery market rose by 17% to 2,210 tonnes, in response to the declining gold price and increase in population. Much of this increased demand came from the Chinese market. With China excluded from the global total, demand in the rest of the world grew by a relatively modest 12%.

Demand for gold from other industry sectors (electronics, dentistry, decorative industries, etc.), decreased by 1% to 405 tonnes in 2013.

According to data provided by the WGC, the official sector, represented by the central banks and the International Monetary Fund, purchased 369 tonnes of gold in 2013, down 32% compared to the previous year.

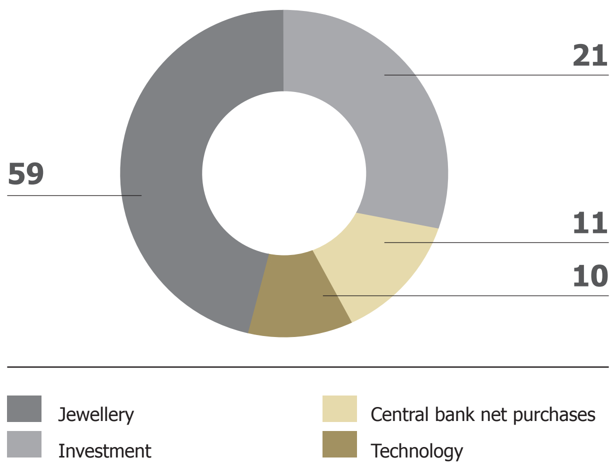
Investment demand for gold includes demand for gold bars, coins, medals and financial instruments linked to the gold price (exchange traded funds – ETFs – and similar instruments). In 2013, investment demand amounted to 773 tonnes, a 51% decrease on the previous year and the lowest level since 2009, as a number of major institutional players sold some of their positions in gold in the second quarter of 2013.

According to the WGC, investment in physical bars and coins increased by 28% to 1,654 tonnes, as a result of low price volatility. At the same time, retail investors in Europe and North America also saw lower prices as an opportunity to increase purchases of coins. In the second half of the year purchases of bars and coins returned to lower levels.

Gold price

Please refer to section 2.8.2 "External market factors affecting the Group's financial results".

Global gold consumption (2013, %)



Source: World Gold Council.

Magadan region

Forming a solid buttress to the waves at low tide, the 'Three Brothers', to the East of Magadan, become islands as the tide rolls in.

Strategic report

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2. Strategic report

2.1. Chairman's Statement

I am pleased to present to shareholders the results of Polyus Gold. Against a background of declining gold prices which fell 30% between January and June 2013 to USD 1,192 per oz, Polyus demonstrated strong performance, which is underpinned not just by increasing volumes of processed ore but also by an increased focus on cost control throughout our operations.

We have revised our plans for the Natalka project both in the light of the tough economic conditions and to allow for further testing of advanced processing techniques, which are showing great promise in early testing. We now expect to have the full flowsheet operating at this strategic deposit in 2015.

There have been some major changes to the Board over the course of the year. Following the resignation of Dmitri Razumov (a representative of ONEXIM) and Alexander Mosionzhik (a representative of Wandle Holdings Limited), Igor Gorin, a representative of Receza Limited and Wamika Trading Limited, joined the Board as a Non-Executive Director. Igor brings with him a wealth of experience from the investment and corporate banking sector. Chairman, Robert Buchan, left to take up a new executive appointment in late May and I was honoured to be offered the opportunity to succeed him. The Board was further strengthened by the appointment of another Non-Executive Director, Edward Dowling. Edward's deep knowledge of the mining industry is certain to be of great value to the business in the coming years. On 13 November, Lord Clanwilliam resigned from the Board and Pavel Grachev, a representative of Wandle Holdings Limited was nominated to the Board. Pavel has much experience serving on the Boards of public companies, and as the CEO of a large fertilizer producer. Lastly, German Pikhoya, CEO of the Company, decided to resign from his position in order to pursue other activities. I should like to take this opportunity to thank Robert, Dmitri, Alexander, Lord Clanwilliam and German for their contribution to the Company's success.

The Board and its Committees have been active over the year, meeting 22 times and 26 times respectively. The Board's work has included visits to the Olimpiada and Blagodatnoye mines, and the Chairman of the Audit Committee has additionally visited Natalka. As well as being important as part of the Board's oversight role, these visits serve to guide our strategic decision-making and ensure that we are reminded of the challenges faced by our operations teams, who work in some of the most hostile conditions in the world.

Mining operations have long been considered as inherently dangerous and therefore ensuring the health and safety of everyone who works for Polyus Gold is a high priority for the Group. We aim to maintain a safe and healthy working environment and we are confident that all injuries at Group operations are preventable. Set against this background, it is therefore deeply saddening to have to report the death of three of our employees in 2013 while working at the Company's most challenging alluvial sites. The Group considers any fatality as unacceptable and is focusing on the complete prevention and elimination of workplace hazards.

During the year, Edward Dowling, a long-term industry professional, was appointed as Chairman of the Health, Safety, Environment and Community Committee and we are confident that Edward will draw on his extensive experience to help further improve our safety procedures and management systems.

We recognise that our operations impact on local communities and the environment. We aim to work with communities to mitigate potential impacts, through the formal stakeholder engagement process, environmental and social impact assessment studies and community development programmes. During 2013, the Board approved the Company's Human rights and Stakeholder Engagement Policies, setting new standards for the Company's work with local communities.

As a socially responsible employer, every year we commit significant funding to community projects and charitable causes.

We are confident about the Company's prospects for 2014. It would not be appropriate for us to offer a detailed forward prediction on gold prices. For impairment purposes we have used a long-term price forecast of USD 1,350 per oz, which, at the date of the publication of the consolidated financial statements, was in line with the market price. In order to be conservative we have used USD 1,200 per oz for our budget purposes for 2014 and at that price, supported by external financing, we expect to remain cash positive for the year, even after taking into account planned capital expenditure of approximately USD 674 million.

We face 2014 with continued vigour. We have some of the world's best reserves, both in terms of size and quality, and a team fully committed to delivering world-leading results and excellent shareholder value.

Ilya Yuzhanov
Chairman of the Board
London, 24 March 2014

Olimpiada. In-pit road.

2.2. Description of strategy

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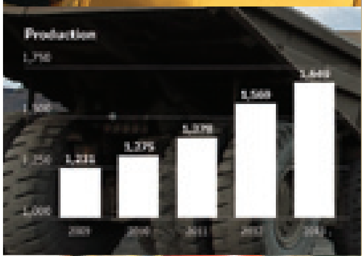
The Company develops its business on the basis of the following premises:

1. 

Maximising free cash flow generation from the production of gold

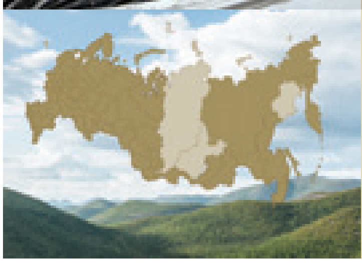
2. 

Maintaining a stable financial position and acceptable leverage

3. 
Optimising operating costs and achieving a level of efficiency in operational management comparable with the best global industry practice

4. 
Securing long-term gold production growth through value-creating brownfield expansion and the launch of gold production at new economically-attractive deposits

5. 
Focusing on large-scale low cost open pit mining projects with globally competitive all-in sustaining costs

6. 
Focusing on three key Russian regions – Krasnoyarsk, Irkutsk and Magadan

2.3. Description of business model

We are the largest gold producer in Russia and one of the largest in the world, with an extensive reserve portfolio, an excellent track record of full-cycle asset development and minimal reliance on third-party infrastructure. We employ modern technologies and equipment to excel in large-scale, low-cost, bulk open pit mining and advanced metallurgical processes.

1 We have highly competitive operations and a strong track record of production from existing operations.

With 2013 production of 1,649 thousand ounces, 83.1 million ounces of proved and probable JORC reserves and 150.1 million ounces of measured, indicated and inferred JORC resources, Polyus Gold is one of the top three gold companies worldwide by proved and probable JORC reserves, based on the most recent publicly available reports. Our current producing assets are well established, with minimal reliance on third-party infrastructure, and, as they have been producing for many years, provide the foundation for further gold production in the medium term. As a result of our solid operational performance and long-established position in Russia, we are well positioned to capitalise on existing and future opportunities in the region.

2 We have an extensive resource base and defined development pipeline, which provides a leading production growth profile from significant development assets.

A significant part of our reserves is within assets that are currently not producing. Given Polyus Gold's solid financial position and strong track record of commissioning new mines, we are well-positioned to convert the reserve base into gold production. Management expects growth to come from both expansion of production at existing mines and the exploitation of new deposits, including the Natalka deposit. When launched, the Natalka deposit is expected to rank among the largest gold mines in the world, based on publicly available reserve and resources reports of leading gold producers.

3 We have wide-ranging expertise in gold mining and project execution in an opportunity-rich mining region.

Our operations are characterised by efficient use of modern equipment and low-cost, large-scale processes. We have a proven track record of project execution, with much of the Group's existing production the result of successful project management, from initial exploration through to design and development and ultimately gold production. The total capacity of mills commissioned by us between 2006 and 2012 is more than 14 million tonnes per annum. Consequently, we believe that Polyus is well-positioned to bring its existing development projects into production and to take advantage of future opportunities in resource-endowed Russia.

4 We have a strong financial position which allows us to capitalise on opportunities.

As of 31 December 2013, Polyus had a net debt position of just USD 349 million, cash reserves of USD 809 million and an asset base of USD 5.7 billion. The Company generated Adjusted EBITDA of USD 910 million and Adjusted Profit for the year from continuing operations of USD 564 million in 2013. Our current financial position and strong cash flow generation provide us with the financial flexibility to execute our organic growth strategy or to make opportunistic acquisitions.

5 We have a strong management team and an experienced and majority-independent Board.

The Group's management has an experience and track record in early stage exploration, development and producing assets, necessary to maximise the value of existing operations, development projects and our resource base. In addition, the Company has an experienced Board of Directors, of whom the majority[1] (4 out of 7) is independent in accordance with UK Corporate Governance Code.

[1] Excluding Chairman.

2.4. Future developments

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During 2013, there were a number of legislative, economic and technological changes, which could potentially affect the future development, performance or position of the Group. These are outlined below.

Tax

In order to stimulate investment projects in some Far Eastern and Siberian regions of Russia, on 30 September 2013, President Putin signed an Act amending the Federal Tax code. For the Company the changes mean that subsidiaries of the Group, which own mines and deposits (for a list of deposits refer to section 2.9.1 "Mines and deposits") located in the regions covered by the Act, may be considered for membership of a Regional Investment Project (RIP). The current version of the Act covers the following regions where the Company is represented: the Amur, Irkutsk and Magadan regions and the Republic of Sakha. RIPs came into effect from 1 January 2014 and will remain in place until 1 January 2029. One of the key requirements for members is to make capital investment of at least RUB 500 million (approximately USD 14-15 million) in the region.

The benefit of membership of a RIP is entitlement to some exemptions from, or reduced rates of mining and income tax. The Company believes that some of its subsidiaries could potentially become members of an RIP. The data below summarises the potential effect on tax rates for members:

	Current tax rate	Potential tax rate
Income tax	20%	From 0% to 10% on pre-tax income, arising as a result of capital investment, for the first five years after the tax period in which the capital investment was recorded. From 10% to 18% for the remainder of the RIPs life.
Mining tax	6%	0% for the first two years from the date that a reduced income tax rate is first applied.

Gold price

The Group's only products are refined gold and occasionally semi-finished products containing gold. Therefore, Group sales are directly affected by the gold price. The gold price fell 29% in 2013, and uncertainties about future price remain. We examined three differing business outcomes, depending on the medium-term gold price. Besides impacting upon the Group's revenue and profitability, a declining gold price could potentially bring into a question the appropriateness of continuing operations at some of our mines (please refer to section 2.8 "Financial review", for calculations of total cash costs and all-in sustaining costs by mines). Conversely, an increase in gold price could potentially lead to a decision to commission new mines, which at the current gold price would not be economically viable.

Weakening of the rouble

Section 2.8 "Financial review", discusses the RUB/USD exchange rate in detail. However, in 2013 the RUB depreciated by 7.6% against the US Dollar (USD) and if this trend continues, the Group could significantly benefit, as its sales are USD-denominated and are costs mainly are RUB-denominated.

Inflation effects

Over the last fifteen years the annual inflation rate in Russia has declined significantly. (Refer to section 2.8 "Financial review", for further discussion). Should this trend continue it may have a positive effect on the Group's profitability.

Technical solutions

The Company places great emphasis on research and development and operates a research centre in Krasnoyarsk, a research processing plant at the Natalka deposit, and a research laboratory at the Olimpiada mine. The Company also cooperates with leading research and engineering companies. This strong grounding in technologies and systems design allows the Company to maintain costs at a competitive level and provides a platform for significant growth in production. The Company's key research and development focus includes: development of new technologies, providing solutions to current production problems, technological support for new projects and exploration solutions.

The Company regularly reviews the operational flow sheets at its mines with the aim of finding new technical solutions to boost the effectiveness and profitability of its mines and reduce their environmental impacts.

In 2013 the following projects were under review:

Photometric separation (PMS) at the Natalka project. On 27 December 2013, the Company announced a re-sequencing in mining operations at the Natalka project. Along with the challenge presented by significant CAPEX requirements when set against the background of a depressed gold price, the decision to re-sequence the programme allows for the potential implementation of PMS as a way to pre-enrich the ore in order to improve efficiency. The decision to implement PMS, if made, could lead to material improvements in the Natalka processing plant's efficiency, primarily to the ore crushing and conveying complex, a critical part of the plant. The Company has carried out two stages of pilot testing of PMS. The potential viability of this technology for processing ore at Natalka has been confirmed in small-scale testing and, in January – August 2014, the Company will conduct tests on a continuous industrial scale using the existing pilot plant. If the testing programme proves successful, the plan is to develop process procedures and a feasibility study of investment in a PMS facility.

X-ray-absorption separation (XAS) at the Verninskoye mine. The results of XAS technology aggregate testing on low-grade ores mined in 2013 at Verninskoye proved the feasibility of using the technology to enrich the gold content of processed ore. The Company plans to continue development work in this area in 2014 refining the technical parameters of the XAS process. Ultimately, the use of XAS should allow the processing of stockpiled low-grade ores.

Pressure oxidation (POX) at the Olimpiada mine. POX pilot testing was carried out in 2013. The technology has proved successful in increasing recovery, reducing the use of cyanides and bio-oxidation. In 2014, the Company plans to finalise POX technology development, and produce technical parameters to guide further development of a feasibility study examining the investment necessary for its incorporation into plant design and construction.

Wastewater treatment at the Olimpiada mine. The development of technology to treat wastewater to remove heavy metal ions, rhodanides and cyanides is planned for 2014 with a view to providing the plant with circulated water. A significant reduction in fresh water consumption is expected if the technology is implemented.

Factors affecting demand for gold

According to the World Gold Council, in 2013, 51% of the demand for gold was for jewellery (for more details please refer to section 1.4 "Market review"). Total consumer demand hinges on the demand for jewellery by individual consumers, together with the demand for pure gold (bars and coins). The strength of that demand depends to a large extent on the gold price, the affluence of consumers and population size.

Global consumer demand increased in 2013 by 21% and mainly reflects changes in the gold price. Alongside price, consumer demand also reflects trends in population. China and India have been the largest jewellery and pure gold markets for many years. Consumer demand in India has been driven largely by population growth with a lesser element attributable to growing affluence. In China, however, growing affluence has been the main driver of demand for gold. Demand is also strong in most Islamic countries (primarily Turkey, the UAE, Saudi Arabia, Indonesia and Egypt) where similar factors came into play. Continued population growth and growing affluence in these countries should ensure stable demand for the Group's main product.

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2.5. Principal risks and uncertainties

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

Successful risk management requires, amongst other things, identification and assessment of potential threats, and the development of measures aimed at mitigating them. The Company's risk management process is overseen by the Risk Committee, composed of three independent Non-Executive Directors and two non-independent Directors appointed by the Board of Directors. The Risk Committee ensures that there is a robust framework for identifying and assessing key risks to the business. Those principal risks and uncertainties are identified below, along with the measures put in place by management, at the request of the Committee, to mitigate against them.

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.

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

Potential impact
If the quantity and quality of the mineral resources and ore reserves are not as expected, reserves may, in the worst case scenario, become unviable. A significant decline in the price of gold could seriously erode margins and affect the viability of operations.

Risk treatment
The Group invests considerable sums every year in geological surveys, which are undertaken using cutting-edge technologies. The Group engages independent international experts to conduct audits on prospective and existing deposits and the Group's activity is guided by their conclusions.

Mining and production activity

The Group is exposed to a number of risk factors directly related to its production activities, including flooding, pit slope and rim slide, accidents caused by the use of mining equipment and explosives, work preparation and performance, damage of power supply facilities or machinery breakdown.

Background
The Group's activities are carried out in remote regions of Russia, from Krasnoyarsk to Magadan, often in sites which have complex geology and which are additionally subject to extreme weather. In such conditions, the risk of equipment failure and accidents is enhanced, plant and equipment is subject to additional servicing and repair costs.

Potential impact
These risks could result in the suspension of ore production and recovery, increase the costs of operation and have adverse social, health and safety and environmental impacts.

Risk treatment
The Group aims to mitigate the risk of unplanned interruption to production through various processes, including strict enforcement of maintenance regimes, holding stock of critical spares, probability analysis and effective risk management. Such risk management includes the identification of potential threats, modelling of risk scenarios, and detailed analysis of potential negative events (see also sub-section 3.1.1 "Materiality and risk management" of section 3 "Sustainability report").

Counterparty and supply chain risks

There are risks of late delivery and non-compliance with contracts due to failure of contractors, manufacturers or suppliers.

Potential impact
The inability to obtain consumables, materials and equipment in time could adversely affect the introduction of both new production capacity and existing production plans.

Background

The Group's principal operations are located in remote areas with harsh climates and poor road infrastructure. In the Krasnoyarsk region, the main trans-shipment terminal at Lesosibirsk, designed to handle, trans-ship, store and deliver all supplies to the sites, is connected by a 320 km road with a ferry crossing over the Yenisei river, or, in winter months, an ice crossing of the frozen river. The route is impassable for between two and three months each year.

The Natalka deposit located some 410 km to the north-west of Magadan. It is connected to Magadan by an unpaved road, which is subject to flooding and landslip. The seaport of Magadan has limited freight capacity.

The delivery of supplies may be disrupted or transportation costs may increase. Failure by suppliers to meet schedules for production and delivery of the necessary supplies could affect the Group's ability to conduct its operations and continue development of mines.

Risk treatment

To mitigate these risks, the Group regularly monitors the financial performance of its counterparties and actively seeks to increase the number of counterparties. To lower its dependence on external energy suppliers the Company mines its own coal deposit and delivers it to its own power stations at the Olimpiada and Blagodatnoye mines. There is stringent quality control over deliveries of new equipment prior to acceptance. A special division, LLC Polyus Logistics, has been established to oversee logistics functions. The Group also keeps adequate stock of spare parts and other inventory to avoid production interruptions at times when the roads are impassable (see also sub-section 3.1.3 "Supply chain management" of section 3 "Sustainability report").

Macroeconomic risks

Background and Potential impact

Macroeconomic risks applicable to the Company include: fluctuations of gold price, strengthening of RUB, inflation, decrease in demand for gold, and some other. For more information please refer to sections 2.4 "Future developments" and 2.8 "Financial review".

Risk treatment

In the current economic climate, gold is being used by many investors to hedge against potential losses in currency and capital markets. Currently, demand for gold remains stable and although the price has fallen by 29% over the year, it remains at an historically high level. The Group constantly monitors gold markets. In order to reduce the impact of increasing energy prices, the Group is developing and modernising its own energy-generating facilities and has entered into long-term fixed-price contracts with energy suppliers. The Group forecasts inflationary changes as part of the budget planning process.

Regulatory risk

The activities of the Group may be adversely affected by the failure to obtain, the termination or the non-renewal of licences from government or regulatory authorities.

Background

The Group holds a significant number of mining and exploration licences for gold and other minerals. The terms of these licences require the Group to comply with a range of industrial standards, employ qualified personnel, ensure that appropriate plant and machinery are used, develop and enforce quality control systems, maintain relevant documentation and provide information to the licensing authorities when requested. Renewal of existing licences and granting of new licences, at least in part, depends on the Group's performance in this area. The Group intends to exploit the deep horizons at the Olimpiada deposit, which may require special permission to carry out underground mining works.

Potential impact

Failure to comply with the terms of mining and exploration licences may result in the termination of licences critical to operations. Alternatively the Group might incur financial or legal sanctions. Failure to secure new licences or the renewal of existing licences, could lead to cessation of mining at the Group's sites or an inability to expand operations.

Risk treatment

The Group is focused on strengthening control over its compliance with licence agreements and industrial standards on a continuous basis. These control activities include the analysis of and immediate response to comments or reports made by state regulatory and supervisory authorities in connection with their inspections of the Group's business activities.

Environmental risk

The Group's activities have a significant impact on the local environment. Mining operations create physical damage to the soil, subsoil and underlying strata, damage flora and fauna and result in loss of habitat. Spoil from mining operations and the waste products of processing may be toxic, requiring careful handling and disposal. Reputational and financial costs for environmental failure can be significant.

Background, potential impact and treatment

Please refer to section 3 "Sustainability report" for more information.

Project risks

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

Background

During the development phase of a mine or other major project there are significant risks caused by fluctuations in the prevailing price of gold, changes in exchange rates and the effects of inflation. Operational risks include delays in commissioning the project and failures due to errors in project design, which may lead to cost over-run and loss of forecast revenue. There is a shortage of skilled technicians and significant competition in the recruitment of workers willing to work in the remote and hostile areas where the Group operates and this may lead to delays in implementation.

Potential impact

Should the identified risks occur, they may result in late commissioning, increased cost of projects, reduced profitability and efficiency of projects, and revocation of licences for the exploitation of mineral resources.

Risk treatment

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

Political risks

Potential changes in Russian legislation aimed at 'deoffshorisation' of the Russian economy, may negatively affect PGIL's operations and financial position. The Ministry of Finance of the Russian Federation (MoF) has developed a draft law aimed at introducing significant amendments to Russian tax legislation as part of the 'deoffshorisation' process and further measures of both a tax, and non-tax nature, may be implemented in the future to support the 'deoffshorisation' initiatives.

Background

Russian governmental authorities and representatives have increasingly made statements encouraging the deoffshorisation of businesses with predominantly Russian assets that are held through ownership structures outside of Russia. In particular, plans have been announced to remove tax advantages associated with such structures and disallow their access to state support. As a result, companies registered in a foreign jurisdiction but which carry activities in Russia may find that the Russian government's deoffshorisation policies could lead to restrictions on contracts with state bodies, and limits being placed on state support and tax relief.

Potential impact

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

- difficulties in obtaining relief on mining and income tax (for instance, membership of Regional Investment Projects (see section 2.4 "Future developments")), if restrictions are placed on such relief measures;
- absence of state support or co-funding of infrastructure and power projects considered to be of local or federal importance (see section 2.9.3 "Development", for a description of the Group's projects), and
- increased tax burden on the Group due to the implementation of new tax residency rules for corporations, which, depending on the final text of the law, could lead to the increase in taxes payable by PGIL and offshore subsidiaries of the Group.

Risk treatment

The Company recognises the potential impact of these possible changes to Russian legislation. The Company is monitoring developments in this area.

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2.6. Analysis using key performance indicators

The Group uses a range of Key Performance Indicators (KPIs) to assess its progress. These operational targets are distinct from, but contribute to the Group's overall budgeted financial targets. The Company's Remuneration Committee produced a list of corporate KPIs and another of individual KPIs for Senior managers of the Company for 2013.

The Board believe that of the KPIs on the corporate list, the following are key in assessing progress: Production, Total cash costs per oz sold (TCC), the implementation of the health and safety management system, and Lost time injury frequency rate (LTIFR). It is the Board's view that an appropriate balance should be struck between production and TCC, which it believes is a key measure of the effectiveness of Group operations. We aim to achieve maximum profitability at our operations. Our strategy envisages the development and commencing of new facilities, each more efficient than current mines. The Natalka mine and expanded operations at Blagodatnoye and Verninskoye will be the main drivers of production growth for the Company. The continued development of these mines is our top priority in the short and medium-term.

Health and Safety is a clear priority for the Group and we strive to minimise injuries and fatalities. It is our belief that zero fatalities is a realistic and achievable aim. In that regard, Health and Safety related indicators are very important when measuring operational performance. The Company has implemented a health and safety management system and has made a range of health and safety commitments (available at http://www.polyusgold.com/sustainability/health_and_safety/).

Individual KPIs, compare average results for the Senior management team against those agreed with each individual from the Senior management team.

The table below presents key bonus measures used in the KPI lists in 2013.

Measures[1]	Year ended 31 December 2013 Target	Actual	Description
Production[2], k oz	1,639	1,605	For the the purposes of remuneration, the actual production volume for 2013 does not include production of 47 k oz in excess of the target production at alluvials, which management are not remunerated on.
TCC, USD/oz	778	773	Based on management accounting calculations
Implementation of the health and safety management systems	To be implemented	Implemented	Health and safety management system in full compliance with OHSAS 18001 and ISO 14001 standards and policy
LTIFR, per 200,000 hours worked	0.18	0.11	Refer to section 3 "Sustainability report"
Average individual KPI for 14 officers[3], %	100	88	Refer to section 4.3 "Directors' remuneration report", for an example of the individual list of KPIs of the CEO.

1 All excluding Kazakhgold.
2 Unrefined gold (doré).
3 Applicable to the Senior managers employed during 2013 and at the date of this report. Note that the make-up of the Senior management as of the date of the Annual report differs from that in 2013. Please refer to section 6.8 "Senior management", for a list of Senior managers.

2.7. Chief Executive Officer's review

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In January 2013, in the Trading Update for the 2012, we committed to produce 1,590-1,684 k oz in 2013. We met the production target thanks to the increased output at the Verninskoye mine (y-o-y[1] increase by 43 k oz) and improved grade and recovery at the Olimpiada mine (38 k oz y-o-y increase).

Operational and financial review

Historically high production was offset by a weaker gold price and we recorded revenues of approximately USD 2.3 billion versus 2.7 billion in 2012. During the year we produced USD 422 million of operational cash flow, raised USD 1,093 million of new debt and invested USD 1,340 million in capital construction. At the year-end we had USD 349 million of net debt.

Dividends

On 31 May 2013 the shareholders approved a final dividend in respect of the financial year ended 31 December 2012 of USD 0.0824 per ordinary share and a Special Dividend in respect of the financial year ended 31 December 2012 of USD 0.0232 per ordinary share, in recognition of the successful sale of our gold mining assets in Kazakhstan, Kyrgyzstan and Romania. The Special Dividend and Final Dividend combined represent an aggregate dividend payment of USD 0.1056 per ordinary share for 2012. This resulted in a total payment of approximately USD 320 million, which is around 33% of the Adjusted Profit from Continuing Operations for 2012.

During April 2014, the Board will decide whether to propose a dividend for the financial year 2013, taking into account the Company's dividend policy, the current market situation and financial condition.

Cost control

In the year 2013 the gold price fell 29%. Most companies in the sector, including PGIL, undertook cost control measures to align their operations with the new market conditions. Polyus' cost control initiatives were focused in three main areas:

- The Group's 2013 budget was reviewed and we were able to cut selling, general and administrative expenses SG&A, operational and capital expenditures. We also decreased exploration expenditures in the Krasnoyarsk and Irkutsk regions;
- in January 2013, we committed to commence mining activities at the Natalka project by the year-end, with full commissioning of the mine in summer 2014. Progress reviews on the Natalka development suggested that, whilst this objective might be have been achievable, it also carried the possibility of significant addi-

[1] Year-on-year (y-o-y). Hereinafter means comparing FY2013 with FY2012.

tional expenditure and greater risks, against a backdrop of an unfavourable gold price environment. Our strategy is not to produce gold at any price and in any conditions. Accordingly, we decided to re-sequence the development plan for the Natalka project and postpone commissioning of the plant from summer 2014 to summer 2015 and continue working on optimising capital expenditures and operating technology;

- we developed contingency plans for lower gold price scenarios. The plans include a detailed action list, starting with improvements in operational efficiency, reductions in discretionary capital expenditures and decrease in the level of inventories through to measures like closure of non-efficient enterprises. The contingency plans also consider the possibility of hedging at certain gold price levels.

Impairments

Following the fall in the gold price in H1 2013, the Company, in line with the industry, has reassessed the future prospects of its exploration and evaluation (E&E) asset portfolio and has also reconsidered the economic recoverability of its mining assets. As a result, based on a long-term gold price assumption of approximately USD 1,350 per oz, the Company has recognised non-cash impairment charges of USD 472 million in 2013, where USD 49 million is related to the impairment of long-term stockpiles and gold-in-process.

These impairments are indeed disappointing, but thanks to the Company's conservative policy in evaluating reserves and projects, the level of impairments was moderate compared to our global peers.

Our good operational results came out of the hard work of the Group's employees over the last few years. On behalf of the management, I would like to thank our employees for their efforts in delivering this successful performance in 2013.

Pavel Grachev
Interim CEO,
London, 24 March 2014

Olimpiada. An open pit.

2.8. Financial review

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2.8.1. Financial highlights

Gold sales down by 14% to USD 2.3 billion, reflecting a 17% fall in the gold price, but partly offset by a 4% increase in gold sold (FY 2012: USD 2.6 billion)

Total cash costs (TCC) per oz sold[1] rose by just 1% to USD 707 per oz following improved cost control throughout the operations and the appreciation of the US dollar against the Russian rouble by 2%, which helped to offset cost inflation

Following the significant fall in the gold price in 2013, an impairment of USD 472 million was recognised, primary related to the Nezhdaninskoye (USD 248 million) and Degdekanskoye (USD 48 million) deposits at the exploration stage and the Kuranakh mine (USD 138 million)

Adjusted operating profit[2] of USD 694 million, compared to USD 1,211 million in 2012

Adjusted EBITDA[3] of USD 910 million (2012: USD 1,303 million), and Adjusted EBITDA margin of 39% (2012: 49%)

Adjusted profit for the year from continuing operations[4] decreased 42% to USD 564 million (FY 2012: USD 978 million)

Adjusted earnings per share[5] of 17 US cents (FY 2012: 32 US cents)

Profit for the year from continuing operations decreased to USD 143 million, compared to USD 965 million in 2012

Net debt position of USD 349 million compared with a net cash position of USD 680 million at the end of 2012

1 TCC per oz sold – for a definition and the calculation used refer to section 2.8.11 "Total cash costs per oz sold".
2 Adjusted operating profit represents Operating profit, before impairment charges.
3 Adjusted EBITDA – for a definition and calculation refer to section 2.8.10 "Adjusted EBITDA".
4 Adjusted profit for the year from continuing operations represents profit from continuing operations before impairment charges.
5 Adjusted earnings per share represents adjusted profit from continuing operations attributable to the shareholders of the Company divided by the weighted average number of ordinary shares.

Financial results

USD '000, unless specified otherwise	Year ended 31 December 2013	2012	% change y-o-y
Gold production (k oz)	1,649	1,569	5
Gold sold (k oz)	1,631	1,571	4
Average realised gold price (USD per oz)	1,385	1,666	(17)
Total revenue	2,328,915	2,679,913	(13)
Profit for the year from continuing operations	143,001	965,104	(85)
Weighted average number of ordinary shares ('000s)[1]	3,032,150	2,950,916	3
Earnings per share – basic and diluted (US Cents)	4	31	(87)
Adjusted operating profit	693,528	1,210,527	(43)
Adjusted operating profit margin (%)	30	45	–
Adjusted profit for the year from continuing operations	563,791	977,966	(42)
Adjusted earnings per share – basic and diluted (US cents)	17	32	(47)
Net cash flow from operations	422,339	991,769	(57)
Capital expenditures	1,439,691	808,886	78
Adjusted EBITDA	910,076	1,303,131	(30)
Adjusted EBITDA margin (%)	39	49	–
Total cash cost per oz sold (USD per oz)	707	697	1
All-in sustaining costs per oz sold (USD per oz)[2]	1,002	1,007	(1)
Net (debt)/cash	(349,096)	679,871	–

[1] The weighted average number of shares changed following the sale of treasury shares on 10 May 2012, which resulted in an increase in the number of shares outstanding and therefore the average number for the year.

[2] All-in sustaining costs per oz sold – for a definition and calculation refer to section 2.8.12 "All-in sustaining costs per oz sold".

Adjustments for impairment charges for the years ended 31 December 2013 and 2012 (see note 11 to the consolidated financial statements).

USD '000	Year ended 31 December 2013			Year ended 31 December 2012		
	Reported	Impairment	Adjusted	Reported	Impairment	Adjusted
Operating profit/(loss) for the year from continuing operations	**221,871**	**(471,657)**	**693,528**	**1,195,103**	**(15,424)**	**1,210,527**
Add/(less):						
Finance costs	(13,878)	–	(13,878)	(31,573)	–	(31,573)
Income from investments, net	21,348	–	21,348	35,960	–	35,960
Foreign exchange gain	4,348	–	4,348	12,026	–	12,026
Current income tax expense	(131,964)	–	(131,964)	(246,193)	–	(246,193)
Deferred income tax gain/(expense)	41,276	50,867	(9,591)	(219)	2,562	(2,781)
Profit/(loss) for the year from continuing operations	**143,001**	**(420,790)**	**563,791**	**965,104**	**(12,862)**	**977,966**
Attributable to shareholders of the Company	133,860	394,275	528,135	922,066	12,237	934,303
Weighted average number of ordinary shares ('000s)	3,032,150	–	3,032,150	2,950,916	–	2,950,916
Earnings per share from continuing operations basic and diluted (US cents)	**4**	**–**	**17**	**31**	**–**	**32**

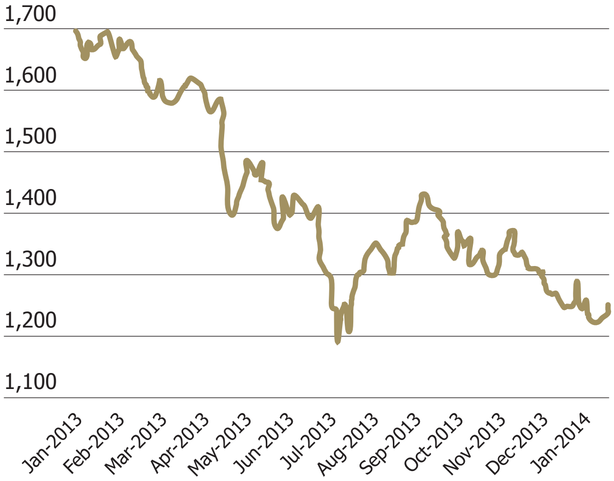
2.8.2. External market factors affecting the Group's financial results

The Group's results are affected significantly by movements in the price of gold, currency exchange rates (principally the Russian rouble/US dollar rate) and the prevailing inflation rates.

Gold price

The market price of gold is the most significant factor influencing profitability and operating cash flow. In 2013, the gold price was volatile and traded in the range USD 1,694 per oz to USD 1,192 per oz. Gold opened the year at USD 1,694 per oz and closed at USD 1,205 per oz, a fall of 29%.

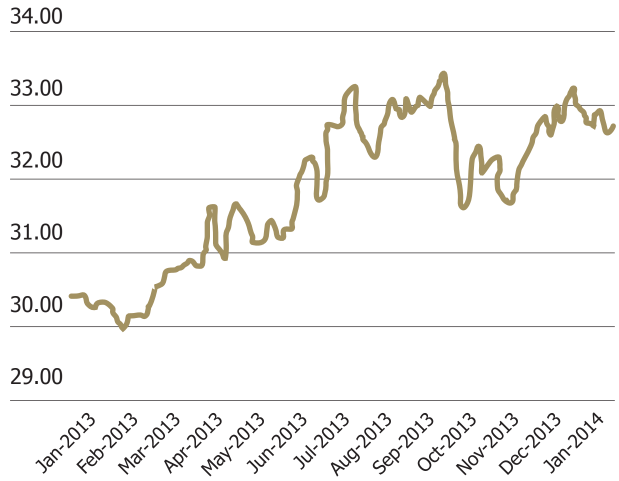
Average afternoon gold price fixing in the year ended 31 December 2013 (USD per oz)



Exchange rate

The Group's revenue from gold sales is denominated in US dollars, but the majority of the Group's operating expenses are denominated in Russian roubles (RUB). Accordingly, an appreciation of the Russian rouble against the US dollar may negatively affect the Group's margins, increasing the US dollar value of its Russian rouble denominated costs. Conversely, an appreciation of the US dollar against the Russian rouble should positively affect the Group's margins by decreasing the US dollar value of its rouble-denominated costs. In 2013, the USD appreciated by 7.6% against the RUB and by a further 10.4% in January – February 2014.

RUB/USD exchange rate in 2013



Inflation

The Group's principal operations are located in Russia. The increase in Russia's CPI (Consumer Price Index) in 2013 was 6.5% (2012: 6.6%), and the increase in the PPI (Producer Price Index) was 8.1% (2012: 7%). The last fifteen years have seen both indices trending downwards.

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2.8.3. Gold sales (note 7 to the consolidated financial statements)

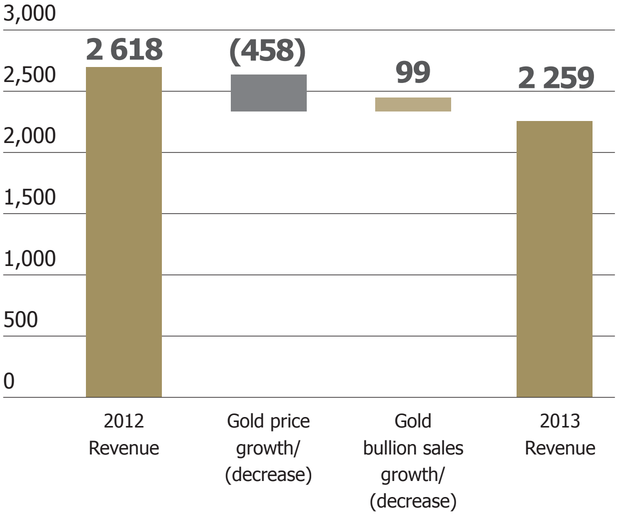
The following table shows the breakdown of the Group's gold sales for the years ended 31 December 2013 and 2012.

	Year ended 31 December		% change
	2013	2012	y-o-y
Gold sales (USD thousands)	2,258,599	2,618,024	(14)
Gold sales (k oz)	1,631	1,571	4
Average realised gold price (USD per oz)	1,385	1,666	(17)
Average afternoon gold price fixing (AAGPF) (USD per oz)[1]	1,411	1,669	(15)
Deficit of average realised price compared to average afternoon gold price fixing (USD per oz) for the year	(26)	(3)	(865)

In 2013, the Group's gold sales amounted to USD 2,258,599 thousand, 14% less than in 2012. The decrease in the value of gold sales is largely attributable to the fall in the gold price on the world market. At the end of 2013, the Group held approximately 34 k oz of refined gold, which were sold in January 2014. Thus, in the reporting period, the Group produced 1,649 k oz, and sold 1,616 k oz produced in 2013 and 15 k oz produced in 2012.

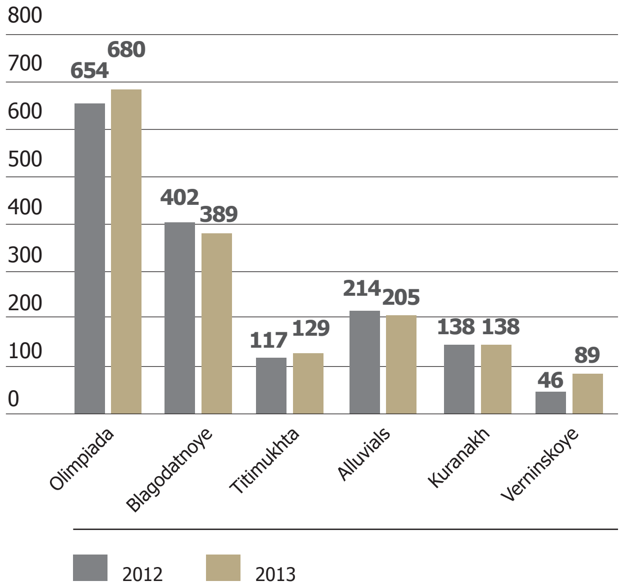
Total sales volume in 2013 was 1,631 k oz, against 1,571 k oz in 2012.

Revenue bridge for the years ended 31 December 2013 and 2012 (USD million)



In 2013, the weighted-average realised gold price was USD 1,385 per oz, a 17% decrease on 2012. This was USD 26 per oz lower than the AAGPF on the London market, because of the seasonality of production from our alluvial deposits, which do not produce and sell gold during the first quarter of the year. The AAGPF for the first quarter of 2013 was higher than the full year AAGPF.

Gold sales volumes by mine, for the years ended 31 December 2013 and 2012 (k oz)



[1] Source: London Bullion Market Association.

The following table shows sales breakdown by type and by mine in 2013.

USD '000, unless specified otherwise	Krasnoyarsk BU							
	Olimpiada	Blagodatnoye	Titimukhta[1]	Alluvials	Kuranakh	Verninskoye	Other	Total
Gold produced (koz)	691	395	131	205	138	89	–	1,649
Gold sold (koz)[2]	680	389	129	205	138	89	–	1,631
Gold sales	947,487	542,495	178,513	277,351	190,751	122,002	–	2,258,599
Other sales	–	–	–	10,172	4,311	849	54,984	70,316
Total sales	**947,487**	**542,495**	**178,513**	**287,523**	**195,062**	**122,851**	**54,984**	**2,328,915**

- In 2013, 42% of the Group's gold sales came from the Olimpiada mine.
- In 2013, the Krasnoyarsk business unit sold 1,198 k oz. Year-end stocks at the refinery in Krasnoyarsk amounted to 34 k oz, which were sold in 2014.
- The Olimpiada mine produced 691 k oz of gold and sold 680 k oz. Expansion of the bio-oxidation facility resulted in a higher recovery rate (74.5% vs. 73.7% in 2012) and therefore, higher production (up 6%).
- Production at the Titimukhta mine increased by 12% y-o-y following a plant upgrade and ore deliveries from the third party owned Veduga deposit.
- There was a slight decrease in ore grade at the Blagodatnoye mine, but this was fully offset by an increase in the recovery rate (88.3% vs. 86.4% in 2012), following automation of the plant.
- Production at the Verninskoye mine met its design parameters by the year-end. Following automation, the recovery rate increased by 10%. Sales increased by 93% compared to 2012.
- Output from the Kuranakh mine was stable at 138 k oz.
- Following the depletion of gold grade in sand washed, the Alluvials delivered lower volumes of gold.

2.8.4. Cost of gold sales (note 8 to the consolidated financial statements)

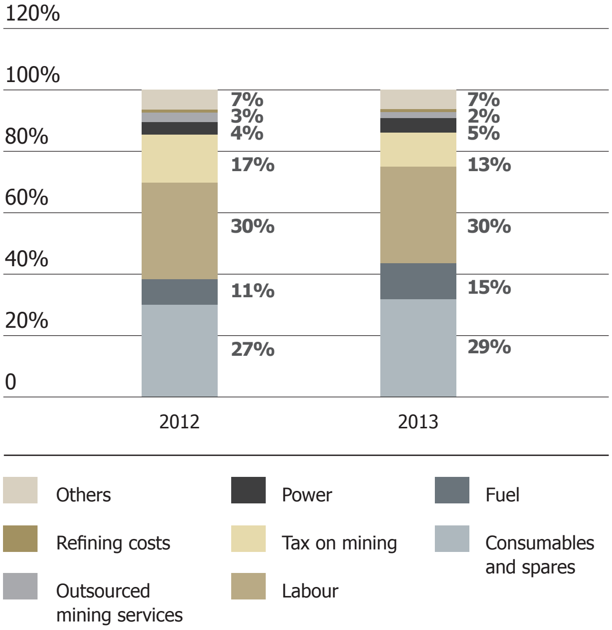
The following table shows the Group's cost of gold sales for the years ended 31 December 2013 and 2012.

USD '000	Years ended 31 December		% change
	2013	2012	y-o-y
Cash operating costs	1,267,931	1,127,740	12
Amortisation and depreciation of operating assets	209,152	169,923	23
Total cost of production	**1,477,083**	**1,297,663**	**14**
Increase in gold-in-process and refined gold inventories	(130,560)	(32,357)	303
Cost of gold sales	**1,346,523**	**1,265,306**	**6**

[1] Includes sales of gold produced from ore purchased from the third party-owned Veduga mine.
[2] Unrefined gold (doré) for all mines in the Krasnoyarsk business unit is stored in a single unit. Therefore gold sales volumes are broken down in proportion to refined gold production.

Cash operating costs

Breakdown of cash operating costs for the years ended 31 December 2013 and 2012



Cash operating costs increased from USD 1,127,740 thousand in 2012 to USD 1,267,931 thousand in 2013. This 12% increase resulted mainly from increasing costs for consumables and spares, fuel and labour cost inflation.

Consumables and spares

A change of mining plan at the Olimpiada mine resulted in an increase of 28% in ore mined and coupled with the continuing ramp-up in production over the year at the Verninskoye mine, resulted in an increased consumption of tyres, explosives and spare parts. An increase in gold production at Olimpiada (+6%), Titimukhta (+12%) and Verninskoye (+95%) resulted in higher consumption of cyanide, lubricants, other chemicals, grinding balls and spare parts. Market prices for some consumables and spares also increased: for example the average purchase price for cyanides increased by 10%.

Fuel

Fuel costs grew by 43% to USD 184,226 thousand. This increase was as a result of various factors:

- a 5% increase in in-house power generation at the Olimpiada diesel power station, to ensure stable power supply for the BIOX process;
- the increasing depth of mining at the Olimpiada pit which resulted in fuel and vehicle maintenance costs rising as distances lengthened;
- a fuel price increase of approximately 9%;
- increases in consumption of diesel fuel, petrol, oil products and lubricants following an early start to the season at the alluvials operation.

Labour

In 2013, labour costs made up the largest component of cash operating costs. These costs increased by 13% to USD 385,781 thousand. The Krasnoyarsk and Irkutsk ore business units were the major contributors to this increase:

- staffing numbers increased and salary increases of between 10% and 14% were introduced at the Krasnoyarsk operation to meet the needs of the competitive market for labour in the region;
- an 18% increase in the number of personnel at the Verninskoye mine as a result of the continuing ramp-up;
- an increase in the number of personnel at the Company's service business units due to the construction at Natalka.

Tax on mining

The mining tax charge decreased by 14% to USD 165,573 thousand. The Group increased production by 5%, however this was offset by a 17% fall in the average realised gold price.

Power

Power expenses increased by 15% to USD 57,844 thousand. At the Krasnoyarsk business unit, external power consumption increased 9% as a result of an increase in ore processed. The Irkutsk ore business unit increased external power consumption by 39%, and the Irkutsk alluvial business unit by 10%, as a result of connection to the federal grid.

Amortisation and depreciation of operating assets

Amortisation and depreciation of operating assets increased by 23% in 2013 to USD 209,152 thousand. The increase primarily relates to increases in depreciation charges for fixed assets at:

- Verninskoye, where the plant was put into operation in the second half of 2012 and the ramp-up in production continued through 2013;
- Olimpiada, Titimukhta and Kuranakh, where the depreciation of stripping activity asset has increased over the period due to higher carried forward balances.

Increase in gold-in-process and refined gold

In 2013, the total metal inventories balance increased by 61% mainly related to:

- an increase in ore stockpiles at the Krasnoyarsk business unit. In the second quarter of 2013, the Group changed the mine plan at the Olimpiada deposit to ensure the optimisation of equipment use and enhancements to in-pit safety, which resulted in ore stockpiling;
- continued stockpiling of low-grade ore at the Irkutsk ore business unit for future processing;
- mining operations started at Natalka in 2013. The stockpiled ore will be used in production following the commencement of the processing plant;
- a significant amount of refined gold accumulated at the Krasnoyarsk refinery plant, which was sold in January 2014.

Various types of inventories are valued using different approaches. Refined gold is valued at the average cost of production per saleable unit of metal. Work-in-process, stockpiles and doré are valued at the average production costs at the relevant stage of production. For more details, please refer to section 2.8.8 "Review of the statement of financial position".

2.8.5. Selling, general and administrative expenses (SG&A) (note 9 to the consolidated financial statements)

In 2013, the Group's SG&A expenses decreased by 12% to USD 225,795 thousand mainly because taxes, other than mining and income taxes, declined by 59%.

Salaries

In 2013, the Group's administrative labour costs increased by 13% to USD 151,027 thousand.

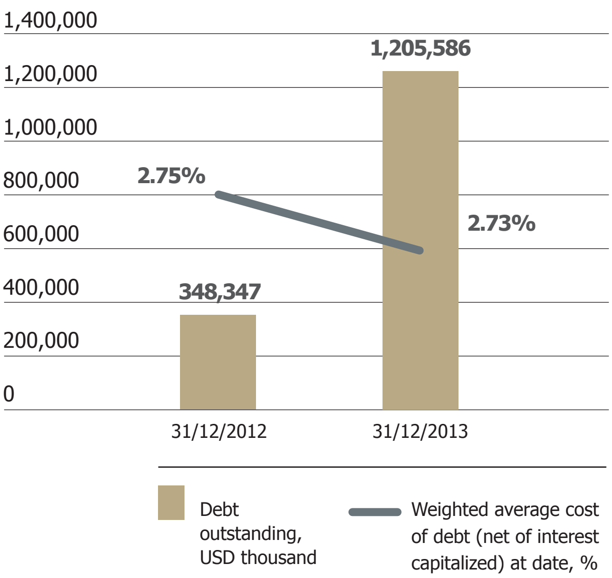
The increase is mainly related to one-off severance related payments to former Senior managers of the Group and an increase in the number of administrative personnel at Verninskoye.

2.8.6. Finance costs (note 12 to the consolidated financial statements)

The total cost of debt increased from 2.8% as at 31 December 2012 to 4.4% as at 31 December 2013 and relates mainly to the 5.625% USD 750 million Notes issued during 2013.

However, interest expenses accrued on the Notes and letters of credit were capitalised within the Mine under development balance, recognising the use of the proceeds for the Natalka project development. Therefore, the Group's finance costs decreased by 56% in 2013 to USD 13,878 thousand and cost of debt, net of interest capitalised, decreased from 2.8% to 2.7%.

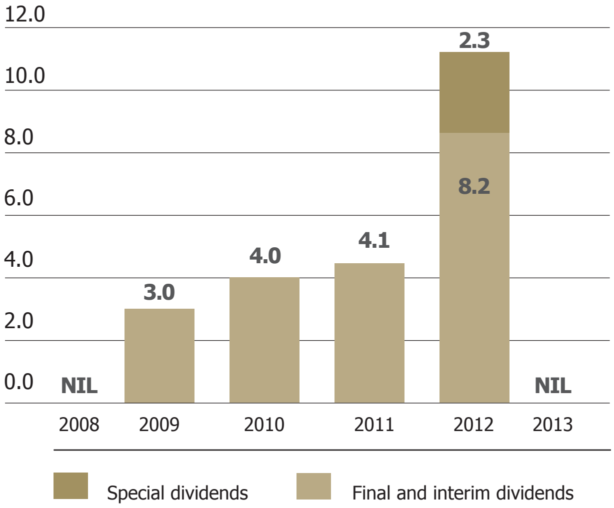
Debt outstanding and weighted-average interest rate as at 31 December 2013 and 2012



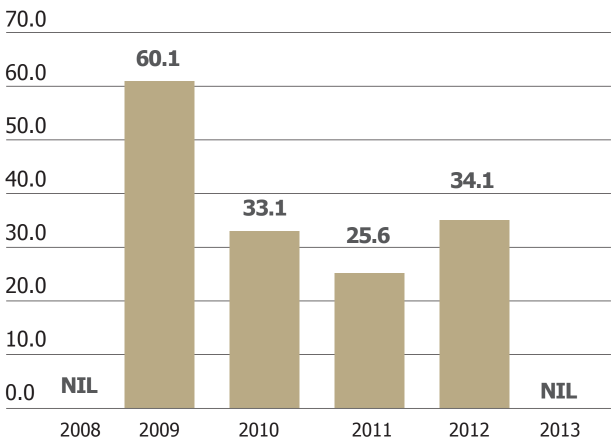
2.8.7. Dividends (note 25 to the consolidated financial statements)

On 31 May 2013, shareholders of the Company unanimously voted for final and special dividend payments for the year 2012 in the total amount of 10.56 US cents per ordinary share, a record dividend payment for the Company.

Dividends per ordinary share in 2008-2013, US cents[1]



Pay-out ratio[2] in 2008-2013, %



2.8.8. Review of the statement of financial position

This section presents an analysis of critical balance sheet items and should be read in conjunction with the descriptions presented in notes 15-30 to the consolidated financial statements for the year ended 31 December 2013.

Property, plant and equipment (note 15 to the consolidated financial statements)

The table below sets forth the components of the Group's net book value of property plant and equipment[3] at 31 December 2013 and 2012.

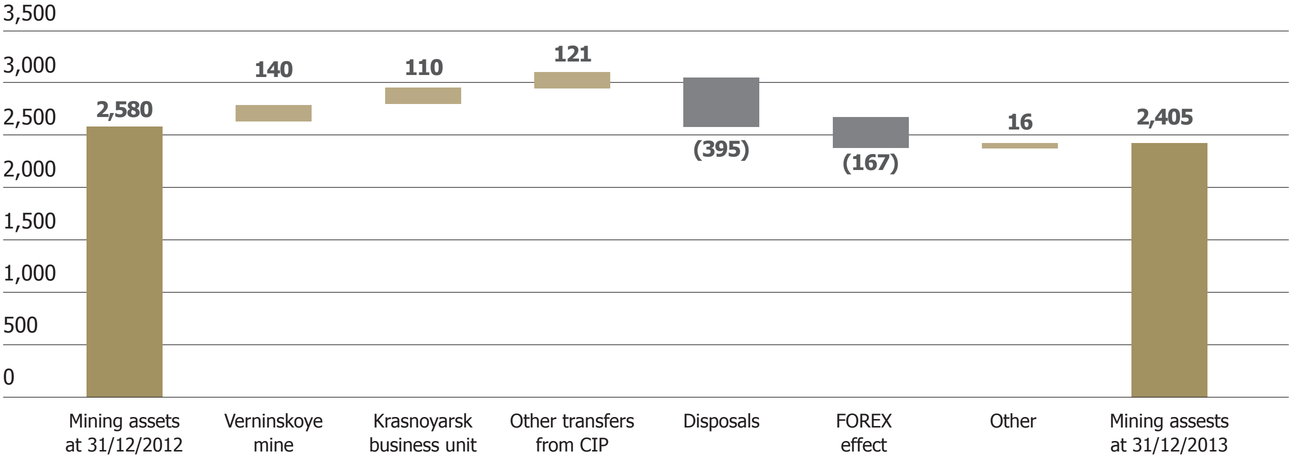
	31 December		% change
USD '000	**2013**	**2012**	**y-o-y**
Mining assets	1,314,396	1,576,431	(17)
Non-mining assets	37,945	50,136	(24)
Stripping activity assets	153,308	175,213	(13)
Net book value of property, plant and equipment	**1,505,649**	**1,801,780**	**(16)**

Mining assets represent 87% of total property, plant and equipment. The value of these assets declined by 17% as a result of the disposal of the mining assets in Kazakhstan and Kyrgyzstan with a net book value of USD 261,150 thousand. The decrease in net book value on account of the sale was offset by transfers from capital construction-in-progress due to:

- completion of construction of the full flow-sheet at the Verninskoye mine and associated infrastructure, valued at USD 140,410 thousand;
- completion of various projects at the Krasnoyarsk business valued at USD 109,748 thousand, including automation of the processing plant at Blagodatnoye and mill throughput expansion at Titimukhta. In addition, housing for 570 staff was commissioned at Olimpiada, replacing old facilities.

[1] Dividends paid by OJSC Polyus Gold for 2008-2010 and PGIL for 2011–2013.
[2] Dividends per share divided by Earnings per share expressed as a percentage.
[3] Adjusted to accumulated amortisation, depreciation and impairment.

Changes to the gross book value of mining assets during the year ended 31 December 2013, USD million



Capital construction-in-progress (CIP) (note 16 to the consolidated financial statements)

CIP represents assets under construction valued at the cost of purchase plus the costs required to bring these assets into working order.

The following table shows the Group's CIP additions for the years ended 31 December 2013 and 2012.

USD '000	Year ended 31 December 2013	Year ended 31 December 2012	% change y-o-y
Krasnoyarsk BU	209,813	100,733	108
Capital construction BU	68,229	133,917	(49)
Irkutsk ore BU	53,253	111,504	(52)
Irkutsk alluvial BU	18,386	23,501	(22)
Yakutia Kuranakh BU	15,673	26,684	(41)
Other	17,867	66,780	(73)
Sub-total continuing operations	**383,211**	**463,119**	**(17)**
Discontinued operations	–	36,831	(100)
Total	**383,211**	**499,950**	**(23)**

In 2013, additions to CIP were mainly driven by the following:

- a number of projects at the Krasnoyarsk business unit, including automation of two processing plants at Olimpiada and one at Titimukhta, valued at USD 209,813 thousand;
- development of infrastructure at Verninskoye valued at USD 53,253 thousand;
- increase of activities of the Capital construction BU at Natalka (USD 37,280 thousand), and
- the start of construction of the Peleduy – Mamakan power line (USD 30,949 thousand).

Mine under development (note 17 to the consolidated financial statements)

Mine under development includes only the Natalka mine (Magadan business unit). For details see section 2.9.3 "Development".

Exploration and evaluation assets (note 18 to the consolidated financial statements)

In 2013, the Group invested USD 32,652 thousand into exploration and reserves evaluation activities, some 28% less than in 2012. This decrease relates to a slowdown and termination of exploration activity:

- at Nezhdaninskoye, Degdekanskoye and some other unpromising deposits, which are not expected to be economically viable at current gold prices, and which were therefore impaired at 30 June 2013 (for details see note 11 to the consolidated financial statements);
- at Panimba, Medvezhy Zapadny and other deposits where exploration work has ceased because the deposits are in the final stage of reserve evaluation.

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Most exploration expenses in 2013 related to drilling, sampling, evaluation, and costs for audits of reserves and resources.

The table below shows total capitalised exploration expenditures for the years ended 31 December 2013 and 2012.

USD '000	Years ended 31 December 2013	2012	% change y-o-y
Nezhdaninskoye	6,678[1]	19,108	(65)
Razdolinskoye (inc. Poputnenskoye)	5,765	3,559	62
Smezhny	4,817	4,039	19
Blagodatnoye	4,853	–	100
Chertovo Koryto	4,178	3,139	33
Olimpiada	2,161	1,057	104
Others	4,200	14,342	(71)
Total investment in exploration and evaluation assets	**32,652**	**45,244**	**(28)**

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

At the end of the year, exploration and evaluation assets decreased by 66%. Expenditures of USD 32,652 thousand were offset by impairment of USD 316,468 thousand (see note 11 to the consolidated financial statements) and by disposal of subsidiaries (see notes 5.2 and 18 to the consolidated financial statements).

Inventories (note 20 to the consolidated financial statements)

The table below shows the balance of metal contained in inventories by type, for the Group's subsidiaries for the years ended 31 December 2013 and 2012.

USD '000	Years ended 31 December 2013	2012	% change y-o-y
Krasnoyarsk BU	**371,840**	**305,112**	**22**
Stockpiles	277,928	213,580	30
Gold-in-process	65,697	80,090	(18)
Refined gold	28,215	11,442	147
Yakutia Kuranakh BU	**24,676**	**55,357**	**(55)**
Stockpiles	12,170	45,394	(73)
Gold-in-process	12,506	9,963	26
Irkutsk ore BU	**78,040**	**68,039**	**15**
Stockpiles	66,873	45,795	46
Gold-in-process	11,167	22,244	(50)
Irkutsk alluvial BU	**450**	**526**	**(14)**
Gold-in-process	450	526	(14)
Magadan BU	**45,655**	**–**	**100**
Stockpiles	45,655	–	100
Discontinued operations (Kazakhaltyn)	**–**	**22,684**	**(100)**
Stockpiles	–	3,085	(100)
Gold-in-process	–	6,648	(100)
Refined gold	–	12,951	(100)
Total	**520,661**	**451,718**	**15**

[1] Capitalised expenditures before 30 June 2013, when impairment was recognised.

This increase is represented by:

- the rise in ore stockpiles at the Krasnoyarsk business unit. In Q2 2013, the Group reviewed the mine plan at the Olimpiada deposit in an effort to optimise equipment utilisation and enhance in-pit safety. These changes have resulted in an increase in stockpiled ore, which will be processed during 2014 and thereafter;
- mining of low-grade ore at the Irkutsk ore business unit, which is stockpiled for future processing;
- in 2013, 4.1 million tonnes of ore were mined for stockpiling at Natalka, including 947 thousand tonnes at 2.0 g/t, 1,498 thousand tonnes of ore at 1.0 g/t and 1,668 thousand tonnes at 0.6 g/t;
- a significant amount of refined gold was accumulated at the Krasnoyarsk refinery plant totalling 34 k oz (2012: 15 k oz), which the Group sold in January 2014.

The value of stores and materials increased by 6%, from USD 449,767 thousand at the beginning of the year to USD 476,366 thousand as at 31 December 2013, mainly due to:

- an increase in consumption at the Verninskoye mine;
- the Krasnoyarsk business unit which increased consumption of fuel because of increased haulage costs following the change of the mining plan at Olimpiada and the works to enlarge the pit.

Capital and reserves (note 25 to the consolidated financial statements)

The translation reserve has moved by USD 318,634 thousand in 2013, which reflected the weakening of the Russian rouble.

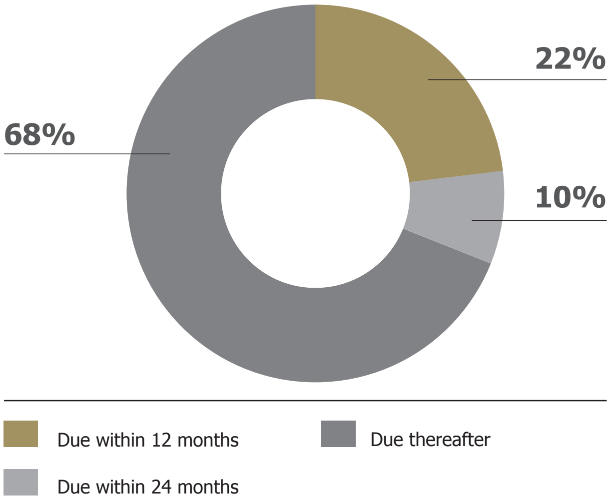
During the reporting period, the Group's retained earnings decreased by 9% to USD 1,922,264 thousand, due to a decrease in net profit attributable to shareholders of the parent Company of USD 140,274 thousand and USD 320,195 thousand in dividends declared and paid in respect of 2012.

Borrowings (note 27 to the consolidated financial statements)

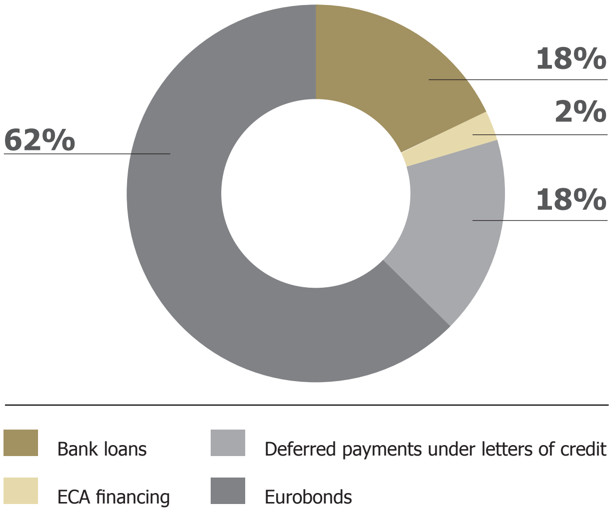
During the year, the Company raised USD 1,092,617 thousand in new debt and repaid USD 236,233 thousand. Please refer to section 2.8.9 "Cash flow analysis", for details.

As at 31 December 2013, the Group's consolidated debt was USD 1,205,586 thousand. The structure of the debt at year-end was as follows.

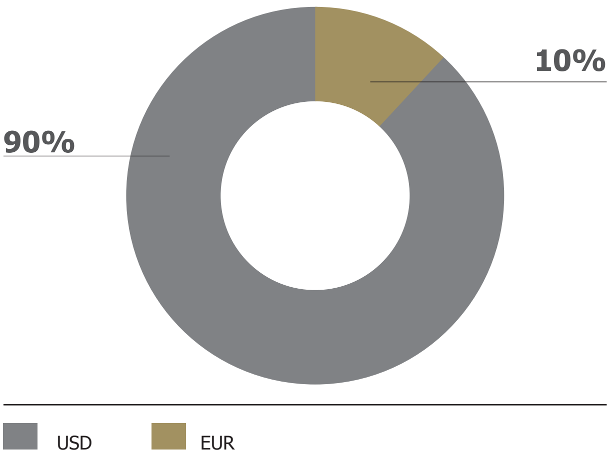
Debt breakdown by maturity



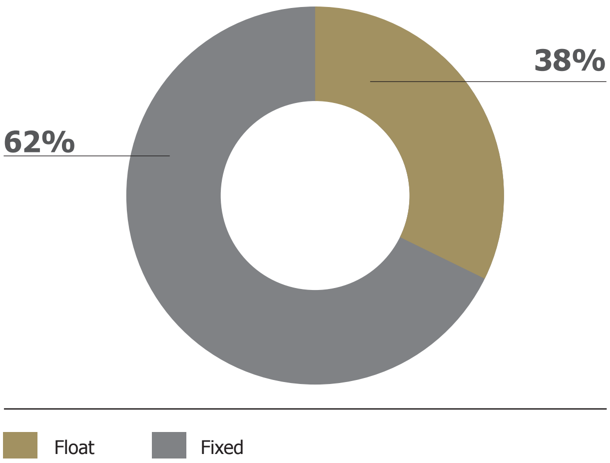
Debt breakdown by type



Debt breakdown by currency



Debt breakdown by interest rate type



The Company expects to repay USD 268,693 thousand in 2014. For more details of the 2014 repayment schedule please refer to note 33 to the consolidated financial statements.

Net cash/(debt) is defined as short-term 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 3 months can be withdrawn on demand and therefore have the same liquidity as cash and cash equivalents. Net debt should not be considered as an alternative to current and non-current loans and borrowings and should not necessarily be construed as a comprehensive indicator of the Group's measure of liquidity.

The following table sets forth the Group's net debt as at 31 December 2013 and 2012.

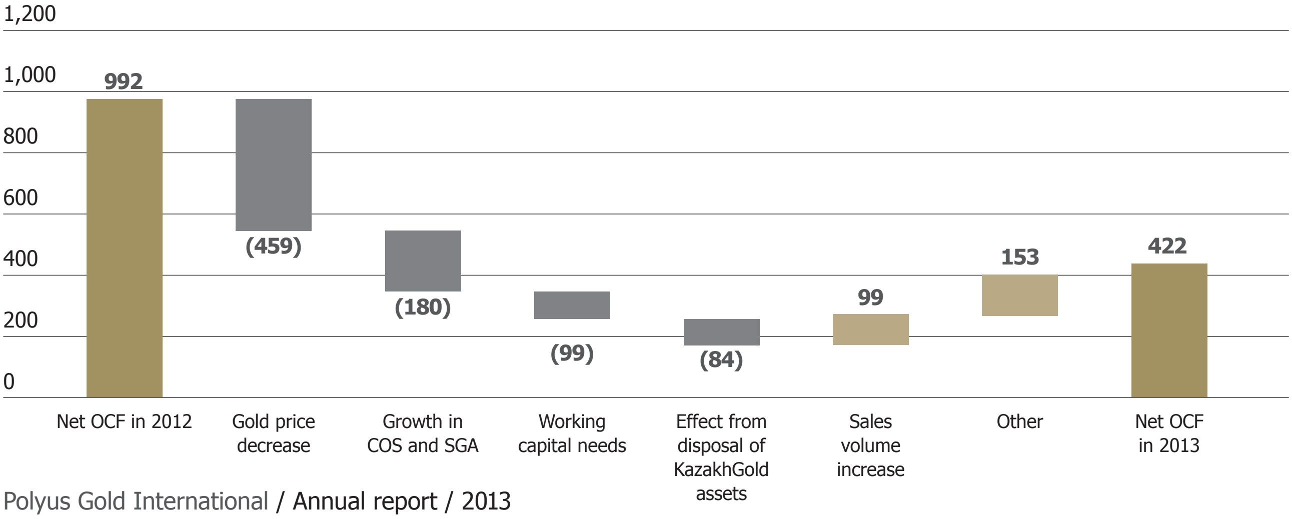
USD '000	31 December 2013	31 December 2012	% change y-o-y
Non-current borrowings	(936,893)	(160,792)	483
+ Current borrowings	(268,693)	(187,555)	43
- Cash and cash equivalents	808,675	959,932	(16)
- Bank deposits	47,815	68,286	(30)
Net (debt)/cash	**(349,096)**	**679,871**	**(151)**

2.8.9. Cash flow analysis

Operating activities

The decrease in cash inflow from operating activities resulted from a combination of factors, mainly the declining gold price and the increased working capital requirements due to growth in inventory balances at Verninskoye and Olimpiada.

Operating cash flow in 2013, USD million



Investing activities

The Group spent USD 1,023,381 thousand (2012: USD 763,789 thousand) in investing activities.

In 2013, purchases of capital construction-in-progress, exploration and evaluation assets and assets for mine under development totalled USD 1,347,217 thousand (2012: USD 713,089 thousand). The Group raised USD 291,199 thousand from the disposal of its subsidiaries in Kazakhstan.

Financing activities

The Group raised USD 744,241 thousand from the issue of Notes due in 2020 (USD 750 million net of up front commission), and USD 348,375 thousand from issued letters of credit and credit facilities from VTB Bank, Rosbank and Deutsche Bank. The Group paid out USD 363,162 thousand in dividends and USD 236,233 thousand to repay borrowings. This resulted in a net cash inflow from financing activities of USD 493,222 thousand.

2.8.10. Adjusted EBITDA

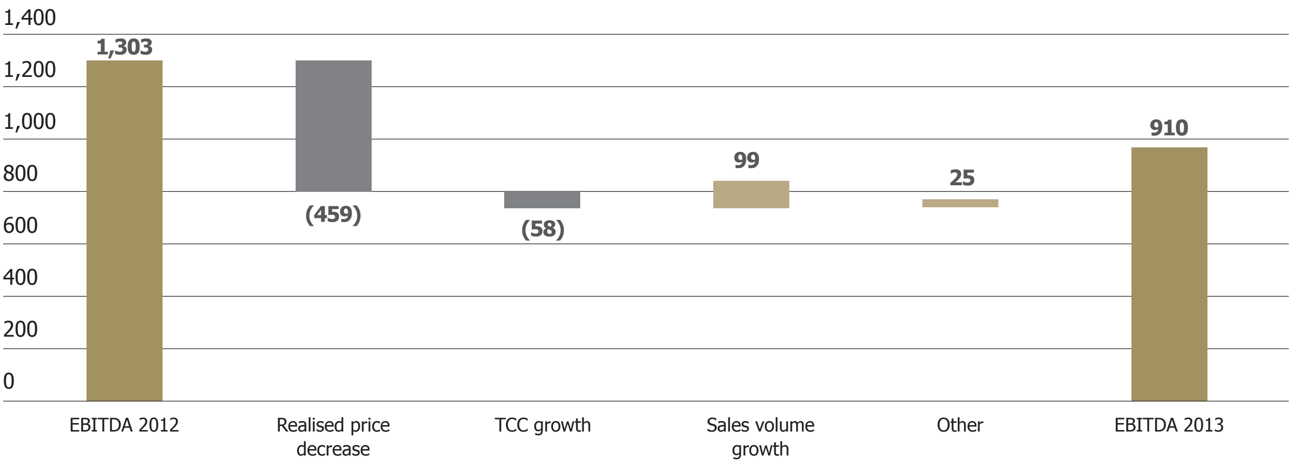
Adjusted EBITDA is defined by the Group as profit before finance costs, income tax, income/(losses) from investments, depreciation, amortisation and interest, and is further adjusted for certain items included in the table below. The Group has made these adjustments in calculating Adjusted EBITDA to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

The following table sets forth the Group's Adjusted EBITDA for the years ended 31 December 2013 and 2012.

USD '000	Year ended 31 December 2013	2012	% change y-o-y
Profit for the year	**143,001**	**965,104**	**(85)**
Net finance income[1]	(13,032)	(4,184)	(211)
Income tax charged	90,688	246,412	(63)
Depreciation and amortisation for the year	213,834	174,797	22
Impairments (note 11 to the consolidated financial statements)	471,657	15,424	2,958
Other adjustments[2]	3,928	(15,338)	(702)
Gain on loan forgiveness and share purchase agreement termination	–	(79,084)	100
Adjusted EBITDA	**910,076**	**1,303,131**	**(30)**

The Group's Adjusted EBITDA decreased by 30% mainly due to lower gold prices and increases in costs which were partly offset by increased sales volumes.

Adjusted EBITDA growth structure in 2013, USD million



[1] Net finance income represents net amount of Income from investments and Finance costs.
[2] Other adjustments include: Gain on disposal of investments, Gain from investments in listed companies held for trading, Foreign exchange gain, Loss from disposal of property, plant and equipment and work-in-progress and Gain on disposal of subsidiaries.

The following table shows the breakdown of Adjusted EBITDA for the year ended 31 December 2013 for the principal revenue generating business units.

USD '000	Krasnoyarsk	Yakutia	Irkutsk ore	Irkutsk alluvial
				Business unit
Profit/(loss) for the year	**475,985**	**(112,276)**	**(9,993)**	**54,738**
Net finance (income)/expense	(414)	413	2,999	(6,838)
Income tax charged/(recovered)	126,542	(16,179)	(2,215)	16,832
Depreciation and amortisation for the year	144,050	18,431	22,471	15,173
Impairments	14,850	137,847	15,205	–
Other adjustments	11,381	503	8,133	294
Adjusted EBITDA	**772,394**	**28,739**	**36,600**	**80,199**

The aggregate Adjusted EBITDA of the Group's principal revenue generating business units is USD 917,932 thousand and including the results of the other companies of the Group gives a Group Adjusted EBITDA of USD 910,076 thousand.

2.8.11. Total cash costs per oz sold

The Group believes that the metrics total cash costs (TCC) and total cash costs per oz sold, although non-IFRS measures, provide a useful comparison with other industry players. Its use is common industry practice, although the method of its calculation may differ as these items are non-IFRS measures. An investor should not consider these items in isolation or as alternatives to the cost of sales, profit for the year attributable to shareholders of the parent Company, net cash generated from operating activities or any other measure of financial performance presented in accordance with IFRS.

Total cash costs per oz sold is total cash costs divided by ounces of gold sold during the period.

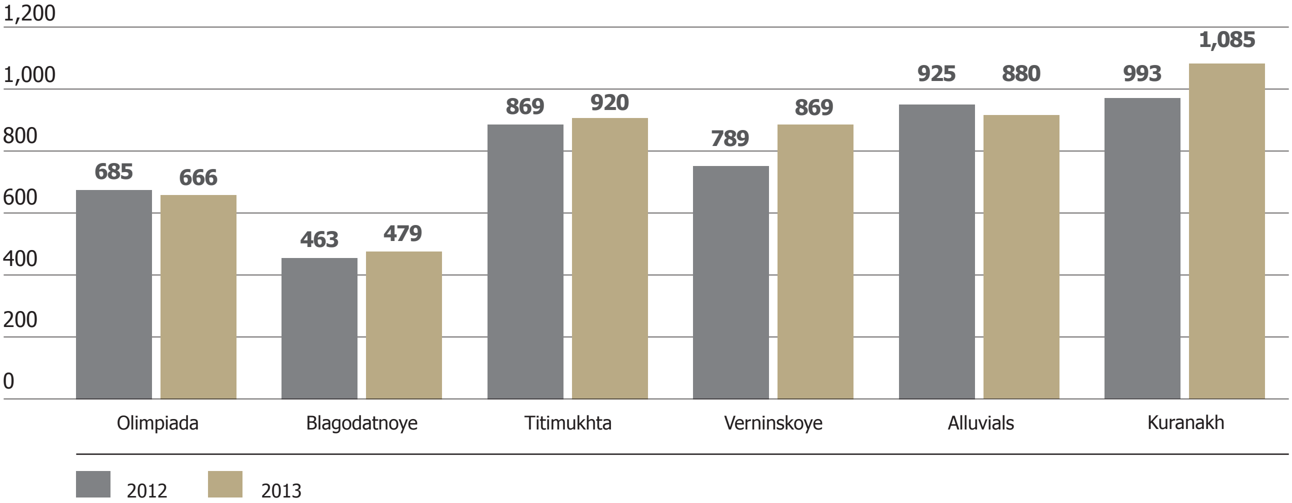
The following table shows the Group's TCC for the years ended 31 December 2013 and 2012.

USD '000	Years ended 31 December		% change
	2013	2012	y-o-y
Cost of gold sales	**1,346,523**	**1,265,306**	**6**
- property, plant and equipment depreciation	(209,152)	(169,923)	23
- provision for annual vacation payment	18	(3,702)	(100)
- employee benefit obligations cost	(5,215)	(2,369)	120
- change in allowance for obsolescence of inventory	2,605	1,562	67
+ non-monetary changes in inventories[1]	18,487	4,180	342
Total cash costs	**1,153,266**	**1,095,054**	**5**
Gold sales (K oz)	1,631	1,571	4
TCC (USD per oz sold)	**707**	**697**	**1**

In 2013, the TCC per oz sold increased by 1%. The key driver was an increase in the cost of gold sales by 6% (for more details, please refer to section 2.8.4 "Cost of gold sales") partly offset by the appreciation of the US dollar against the Russian rouble.

[1] Non-monetary changes in inventories is a calculation to estimate the non-cash portion of costs included in the change in the amount of inventory, primarily representing depreciation and amortisation.

TCC per oz sold by mine in the years ended 31 December 2013 and 2012, USD per oz



- Olimpiada mine: a 3% y-o-y decrease in TCC per ounce of gold sold as a result of an improvement in average grade and recovery;
- Blagodatnoye mine: a slight increase in TCC of 3% y-o-y from a lower grade of ore processed, offset by the improved recovery rate;
- Titimukhta mine: an improvement of the recovery rate following installation of a new thickener and the expansion of the hydro-metallurgical section, offset by a 12% decrease in gold grade;
- Verninskoye: a 10% increase in TCC as a result of a combination of an increase in consumption of various mining and processing materials (ore mining volumes increased), growth in the number of personnel and increased prices for goods purchased;
- Alluvials: a 5% decrease in TCC due to ongoing optimisation of the mining plan and a 6% decrease in personnel;
- Kuranakh: an increased zinc content in the ore fed to the plant significantly reduced the recovery rate. This metallurgical issue, together with an increase in cash operating costs resulted in a 9% increase in TCC.

2.8.12. All-in sustaining cash costs per oz sold

In June 2013, the World Gold Council (WGC) published a guidance note on the all-in sustaining cash costs (AISC) metric for gold mining companies. It is expected that the adoption of AISC by precious metal producers may help to provide investors, governments, local communities and other stakeholders with better visibility into the true cost of producing gold.

AISC measures costs related to sustaining production[1]. We calculate it in accordance with the recommendation of the WGC including TCC, SG&A expenses, sustaining CAPEX and other cash costs attributable to current sales.

In 2013, AISC for the Company was USD 1,002 per oz sold, which is 1% lower than in 2012 (USD 1,007 per oz sold). The main reasons for the decrease are explained by a 2% fall of the Russian rouble against the US dollar, 61% lower stripping activity asset additions, and a 12% reduction in SG&A expenses partly offset by overall inflation in the cost of sales and a 31% increase in sustaining CAPEX.

USD '000	Year ended 31 December 2013	2012	% change y-o-y
Total cash costs	**1,153,266**	**1,095,054**	**5**
SG&A less SG&A depreciation	221,309	214,157	3
Research expenses	2,499	2,079	20
Stripping activity asset additions	37,692	96,623	(61)
Sustaining capital expenditures	210,236	159,950	31
Unwinding of discounts on decommissioning liabilities	5,442	9,003	(40)
Adding back expenses excluded from TCC	2,592	4,509	(43)
All-in sustaining costs	**1,633,036**	**1,581,375**	**3**
Gold sales (k oz)	1,631	1,571	4
All-in sustaining costs (USD per oz sold)	**1,002**	**1,007**	**(1)**

[1] Non-sustaining costs are those costs incurred at new operations and costs related to 'major projects' at existing operations where these projects will materially increase production. Companies need to publicly disclose those operations and 'major projects' which are considered non-sustaining. All other costs related to existing operations are considered sustaining.

2.9. Operational review

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2.9.1. Mines and deposits

Region		Krasnoyarsk		Irkutsk		Yakutia	Magadan
Mine	Olimpiada	Titimukhta	Blagodatnoye	Verninskoye	Alluvials	Kuranakh	Natalka
Type of ore	Sulphide, refractory	Oxidised and sulphide, non-refractory	Sulphide, non-refractory	Sulphide, non-refractory	Sands	Quartz–pyrite	Sulphide, non-refractory
JORC Proved and Probable reserves, m oz, 31 Dec 2013	30.0	1.6	9.2	4.4	1.3	2.7	31.6
Mining method	Open pit	Open pit	Open pit	Open pit	Quarrying and dredging	Open pit	Open pit
Power source	Federal grid, diesel and coal power stations	Federal grid, diesel and coal power stations	Federal grid andcoal power station	Hydro and diesel power stations	Hydro and diesel power stations	Federal grid	Federal grid and diesel power station
Ore processing capacity, mtpa[1]	8.0	2.4	6.0	2.2	n/a	3.6	10 (Ex)
Processing technology[2]	Gravity-Flotation-Bio-Carbon-in-leach	Gravity-Resin-in-leach	Gravity-Flotation-Carbon-in-leach	Gravity-Flotation-Carbon-in-leach	Gravity	Resin-in-pulp	Gravity-Flotation-Carbon-in-leach
2013 Production, k oz	691	131	395	89	205	138	–
Number of employees, 31.12.2013	3,020	789	1,777	1,688	2,815	1,787	1,497
2013 TCC, USD/oz	666	920	479	869	880	1,085	–
Owner	CJSC Polyus	CJSC Polyus	CJSC Polyus	OJSC Pervenets	OJSC Lenzoloto	OJSC Aldanzoloto GRK	OJSC Matrosov Mine
% of effective ownership by the Company	95.1	95.1	95.1	95.1	38.4-62.9[3]	95.1	95.1

[1] Please refer to Glossary on page 215 for definition.
[2] Please refer to Glossary on page 213 for definitions.
[3] Licenses for alluvial deposits are held by various entities that are not directly owned by Polyus Gold International Limited. The holdings range from 38.4% to 62.9%. The Group has the power to govern the financial and operating policies of theses entities and therefore the Group consolidates the financial results of all of these entities and accounts for all of their reserves in the Group's reserves.

2.9.2. Production

In 2013, the Company produced 1.65 million ounces of refined gold from continuing operations, a 5% increase on the 1.57 million produced in 2012, and moved a total of 66 million cubic metres of rock in 2013 compared to 67 million 2012.

The Group mined 30 million tonnes[1] of ore, up 28% on the 23.5 million mined in 2012. The increase was primarily due to increased volumes at the Olimpiada and Verninskoye mines.

In 2013, the Company processed 22 million tonnes of ore, 3% more than last year, with all mines other than Olimpiada increasing their throughput.

At the Olimpiada and Verninskoye mines, the Group mined a total of 7 million tonnes more than it processed. In order to improve safety of open mining operations, the Group reviewed the mining plan at Olimpiada. The new plan envisages a gradual transition from mining to stripping activities at the pit surface and as a result, the stripping ratio decreased to 1.8 m³/t from the 2.7 m³/t achieved in 2012. Mining will continue until July 2014. After this date the feed for processing will come from the accumulated stockpiles. Once stripping works are complete, mining will recommence. At Verninskoye we maintain a high level of mining operations but stockpile low-grade material. This ore will be processed once power shortages are resolved (see section 2.9.3 "Development") and new technological solutions introduced (see section 2.4 "Future developments").

Refined gold production (k oz)	2013	2012	% Change, y-o-y
Olimpiada	691	653[2]	6
Blagodatnoye	395	401	(2)
Titimukhta	131[3]	117	12
Verninskoye	89	46	95
Alluvials	205	214	(4)
Kuranakh	138	138	-
Total refined gold production	**1,649**	**1,569**	**5**

Olimpiada (Krasnoyarsk region)

The Olimpiada mine is located in the Krasnoyarsk region of Russia, approximately 500 kilometres north of Krasnoyarsk. Two mills with a total capacity of 8.0 mtpa process sulphide ores. These sulphide ores contain refractory sulphide minerals at concentrations of between 3% and 10%. The average gold grade of these sulphide ores is 3.5 g/t.

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

Improved recovery rates and an increase in the average gold grade in the ore processed meant that total production of refined gold was 691,273 ounces, up from 653,090 in 2012 despite slightly lower processing volumes. Recovery rates continued to increase, up 0.8% to 74.5% and further improvements are anticipated following completion of the automation of the bio-oxidation facility in Q2 2014.

Olimpiada	2013	2012	% Change, y-o-y
Total rock moved ('000 m³)	25,052	24,368	3
including stripping	20,757	21,384	(3)
Stripping ratio (m³/t)	1.8	2.7	(33)
Ore mined ('000 tonnes)	11,597	8,056	44
Average grade in ore mined (g/t)	3.6	3.4	8
Ore processed ('000 tonnes)	7,822	8,068	(3)
Average grade (g/t)	3.6	3.4	5
Recovery (%)	74.5	73.7	1
Refined gold production (k oz)	691	653[2]	6

[1] Excluding ore mined at Natalka.
[2] Including 22,953 ounces of gold produced in the form of flotation concentrate sold to a third party.
[3] Including 9,356 ounces of refined gold production from ore purchased from the third party-owned Veduga mine.

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Blagodatnoye (Krasnoyarsk region)

The Blagodatnoye mine is in the Krasnoyarsk region, some 25 km from the Olimpiada mine. The ores of the Blagodatnoye deposit are quartz/micaceous schists with impregnated and vein impregnated sulphide mineralisation.

The mine is an open pit with surface stockpiling. The mill was commissioned in 2010 and is based on gravity concentration, flotation and CIL. The plant has a processing capacity of 6.0 mtpa.

In 2013, Blagodatnoye produced 395,261 ounces. Full automation of the Blagodatnoye plant has resulted in processing volumes and recovery rates significantly exceeding design parameters offsetting a decrease in the gold grade of the ore processed.

Blagodatnoye	**2013**	**2012**	**% Change, y-o-y**
Total rock moved (in '000 m^3)	13,321	15,355	(13)
including stripping	10,851	13,040	(17)
Stripping ratio (m^3/t)	1.6	2.0	(21)
Ore mined (in '000 tonnes)	6,840	6,463	6
Average grade in ore mined (g/t)	2.1	2.1	(2)
Ore processed (in '000 tonnes)	6,755	6,499	4%
Average grade in ore (g/t)	2.0	2.1	(4)
Recovery (%)	88.3	86.4	2
Refined gold production (k oz)	395	401	(2)

Titimukhta (Krasnoyarsk region)

The Titimukhta deposit is located 9 km northwest of the Olimpiada deposit. The deposit contains quartz vein and veinlet stockwork. Due to the close proximity of the deposit to the Olimpiada mine, the ores from Titimukhta are processed through an older mill on the Olimpiada site.

Gold production at Titimukhta increased by 12% y-o-y to 130,789 ounces in 2013, including 9,356 ounces of refined gold produced from ore purchased from the third party-owned Veduga mine in accordance with an off-take agreement. The increase was mainly due to the higher volume of ore processed and improved recovery rates following an upgrade of the processing plant.

Titimukhta	**2013**	**2012**	**% Change, y-o-y**
Total rock moved (in '000 m^3)	10,195	10,211	–
including stripping	9,280	9,328	(1)
Stripping ratio (m^3/t)	3.7	3.9	(4)
Ore mined ('000 tonnes)	2,514	2,422	4
Average grade in ore mined (g/t)	2.0	2.1	(2)
Ore processed (in '000 tonnes)[1]	2,391	2,131	12
Average grade in ore (g/t)[1]	1.8	2.1	(12)
Recovery (%)[1]	85.0	82.2	3
Refined gold production (k oz)	131	117	12

[1] Excluding ore purchased from Veduga.

Verninskoye (Irkutsk region)

In December 2011, the Group commenced production at the Verninskoye mine, located in the Irkutsk region of Russia. The mill is based on gravity concentration, flotation and CIL and has a processing capacity of 2.2 mtpa.

Verninskoye produced 89,100 ounces of gold in 2013, nearly double last year's 45,586 ounces, as a result of higher processing volumes, increased gold grade in the ore and improved recovery rates. Following the completion of full automation in Q4 2013, the Verninskoye plant is currently being fine-tuned to reach its design performance parameters.

Verninskoye	2013	2012	% Change, y-o-y
Total rock moved (in '000 m^3)	4,539	2,408	88
including stripping	2,712	1,439	88
Stripping ratio (m^3/t)	0.5	0.6	–
Ore mined ('000 tonnes)	4,934	2,616	89
Average grade in ore mined (g/t)	2.0	1.8	8
Ore processed ('000 tonnes)	1,626	1,324	23
Average grade in ore (g/t)	2.5	2.2	13
Recovery (%)	70.8	64.2	10
Refined gold production (k oz)	89	46	95

Alluvials (Irkutsk region)

Our alluvial deposits are located in the Irkutsk region. The Group mines gold using quarrying and dredging techniques, followed by gravity separation. Stripping is performed by walking excavators and bulldozers.

In the reporting period, the Company's alluvial operations produced 205,417 ounces of gold, compared to 213,981 in 2012.

Alluvials	2013	2012	% Change, y-o-y
Sand washed (million m^3)	10,107	9,962	1
Average grade (g/m^3)	0.63	0.7	(5)
Refined gold production (k oz)	205	214	(4)

Kuranakh (Republic of Sakha)

The Kuranakh mine is located in the Republic of Sakha (Yakutia) of Russia. Ore is mined from numerous deposits in the Kuranakh ore field. The area has a long history of mining and the deposits in the Kuranakh ore field have been significantly depleted and the central parts of the deposit which formerly had the most uniform ore bodies and the highest gold grade have been mined out.

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

In 2013, Kuranakh produced 137,635 ounces of gold, which was in line with 2012.

Kuranakh	2013	2012	% Change, y-o-y
Total rock moved (in '000 m^3)	13,244	14,361	(8)
including stripping	10,952	12,064	(9)
Stripping ratio (m^3/t)	2.6	3.0	(13)
Ore mined ('000 tonnes)	4,146	3,984	4
Average grade in ore mined (g/t)	1.4	1.3	2
Ore processed ('000 tonnes)	3,811	3,735	2
Average grade in ore (g/t)	1.4	1.3	2
Recovery (%)	84.0	86.6	(3)
Refined gold production, k oz	138	138	-

2.9.3. Development

Natalka (Magadan region)

Once fully completed, the Natalka mine in the Magadan region will be the largest gold mine in Russia (10 mtpa of ore processing capacity in 2015 with a potential increase up to 40 mtpa). Over the course of 2013, the onsite construction team grew to 2,700 and much of the key infrastructure was constructed.

The majority of the necessary engineering surveys have been carried out and planning of the site is complete.

Development of the facilities at the main mill are underway, the SAG mill and ball mill have been installed, foundations for the crushed ore storage facility are complete and the temporary tailings dam is complete. Work continues on electricity pylons to bring 110kV power lines to the facility and the majority of the necessary temporary roads have been constructed. Thirteen buildings providing canteens, recreation and accommodation facilities for the more than 2,400 construction workers and engineers have been built. Key technological equipment has been delivered, the mining fleet and other equipment is on site (refer to note 17 "Mine under development" to the consolidated financial statements).

The Company has decided to re-sequence the development plan for the Natalka mine and postpone commissioning of the plant from summer 2014 to summer 2015. While it is operationally possible to commence production at Natalka as previously planned, the Company deems it prudent to postpone final commissioning, given the recent substantial decline in gold prices and the possibility of further weakness. Polyus Gold expects to finalise detailed project revisions by the middle of 2014 following a thorough project assessment, scheduled for completion during the first half of the year. In the meantime, development works onsite will continue, albeit at a slower pace. Mining works, which commenced in 2013, will also continue in accordance with the licence terms.

We believe that the re-sequencing of the project development will allow the Company to identify additional cost savings and operational efficiencies, and the optimisation of capital and operating expenditures. Improvements to the project design are also being investigated, including the potential implementation of photo-metric separation technology (optical sorting) as a way to pre-enrich the ore (for further information please refer to section 2.4 "Future developments").

Blagodatnoye mine expansion (Krasnoyarsk region)

The Company has been putting together detailed construction documentation for a project to expand the capacity of the Blagodatnoye mine to 8 mpta. We expect the documentation to be ready in the first half of 2014.

An automatic process control system was installed at the existing mill. As a result, in 2013, recovery increased by 2% (refer to note 16 "Capital construction-in-progress" to the consolidated financial statements).

Verninskoye processing plant automation (Irkutsk region)

We completed the construction and commissioning of an automatic process control system, and put in place a set of measures to optimise the operation of the mill and open pit, in particular partial replacement of pumps and the replacement of mixers and gravity and hydro-metallurgical equipment. This set of measures has helped to increase recovery rates. We expect that once this work is fully completed in 2014, recovery rates will meet planned levels (refer to note 16 "Capital construction-in-progress" to the consolidated financial statements).

Peleduy – Mamakan power line (Irkutsk region and Republic of Sakha)

In order to guarantee supply to our strategic projects in the Irkutsk region, the Company is building a 110 kV power line from Peleduy in the Republic of Sakha to Mamakan in the Irkutsk region. In the fourth quarter of 2013, we completed detailed construction documentation, contracted all materials and started the construction of foundations and pylons. Completion is expected by the end of 2014 (refer to note 16 "Capital construction-in-progress" to the consolidated financial statements).

Razdolinskaya – Taiga power line (Krasnoyarsk region)

PGIL's assets in the Krasnoyarsk region have a deficit of external grid power supply. In 2013, the Company started the development of project documentation to connect the Taiga substation near Blagodatnoye to the Razdolinskoye substation. This new power line would allow all our operating mines in the Krasnoyarsk region to obtain an access to the prospective power supply from the recently commissioned Boguchanskaya hydro power station. It is expected, that commissioning of this new power transmission line will lead to a decrease in power costs for the Krasnoyarsk business unit.

2.9.4. Exploration (refer to note 18 "Exploration and evaluation assets" to the financial statements)

In 2013 the Company carried out exploration work at 10 hard rock and a number of small alluvial deposits and prospective areas. The volume of drilling was 79 thousand metres.

Olimpiada (Krasnoyarsk region)

The Company explored the western flank of the deposit in order to convert resources into reserves. This was successfully achieved. A Feasibility Study (to Russian standards) and an estimate of reserves is underway and will be completed in 2014.

Blagodatnoye (Krasnoyarsk region)

Exploration of the deep levels of the Blagodatnoye deposit to estimate reserves and resources is ongoing and is expected to be completed in Q4 2015. Almost 11 thousand metres have been drilled, and a further 10 thousand metres of drilling is planned for 2014. Metallurgical and mineralogical testing will be undertaken in parallel with the drilling.

Verninskoye (Irkutsk region)

Exploration was completed around the flanks and at deep levels of the Verninskoye deposit (26 thousand metres were drilled). A feasibility study (meeting Russian standards) commenced in 2013 and will estimate the new reserves and resources at the Verninskoye deposit and the associated Pervenets and Perevalnoye deposits. Should these reserves and resources be proved viable, it would support an increased throughput at the processing plant at the Verninskoye mine.

Alluvial deposits (Irkutsk region)

38 thousand metres were drilled at 20 potential sites.

Kuranakh (Republic of Sakha)

In 2013, a feasibility study (meeting Russian standards) and an estimate of reserves was undertaken and submitted for state approval. The results of the advanced and operational exploration are in hand and a block model of the 11 deposits in the Kuranakh ore field was created. The outlines of the open pits were optimised and an estimate of reserves was produced for each deposit in the ore field.

In addition a feasibility study (to Russian standards) and an estimate of reserves contained in the low grade stockpiles at Kuranakh was produced and submitted for state approval in 2013. The stockpiles also underwent an environmental risk assessment. The LOM (life-of-mine) plan assumes 16 years of mining with further processing at the Kuranakh processing plant.

The total increase in JORC Proved and Probable reserves at Kuranakh in 2013 was 1.1 m oz.

Chertovo Koryto deposit (Irkutsk region)

A drilling programme was undertaken at potential sites within the exploration area and a report has been issued. LLC Polyus Project, the Group's design unit, initiated the development of the detailed design works for construction of a mine at the deposit.

Any decision to proceed with implementation of the project requires completion of the construction of the power line from Peleduy to our operating facilities in the Irkutsk region, as described in section 2.9.3 "Development".

Panimba area (Krasnoyarsk region)

Exploration has been undertaken at 3 remote locations: Panimba, Mikhailovsky, and Zolotoy. As a result of this exploration, Panimba has been identified as a gold bearing deposit.

The Panimba deposit is a quartz schist with a low sulphide concentration in the ore and free gold. A feasibility study (to Russian standards) has been developed and was submitted to GKZ (the Federal Reserves Committee) in 2013. Approval is expected in 2014.

Razdolinskaya area (Krasnoyarsk region)

A pre-feasibility study (to Russian standards) to estimate reserves and resources has been developed and reviewed by State experts in 2013. The JORC compliant resources of the deposit are estimated at 3.2 m oz of gold. Currently the project is awaiting a mining permit from the regional government.

2.10. JORC resources and reserves

In 2012-2013, a JORC compliant resources and reserves audit was undertaken at Olimpiada, Blagodatnoye, Titimukhta, Verninskoye, the alluvial deposits, Kuranakh and the Medvezhy Zapadny deposits in Russia. According to the audit results, the Group's total measured, indicated and inferred resources are 150.1 m oz and proved and probable reserves are 83.1 m oz.

Measured, indicated and inferred resources

Resources are inclusive of reserves.

			Measured			Indicated	Total measured and indicated
Deposit	Ore (million tonnes)	Grade (g/t)	Gold ('000 ounces)	Ore (million tonnes)	Grade (g/t)	Gold ('000 ounces)	Gold ('000 ounces)
Operating mines							
Olimpiada[1]	23.0	3.99	2,960	281.2	3.32	30,060	33,020
Blagodatnoye[1]				144.3	2.30	10,670	10,670
Titimukhta[1]	2.2	2.98	210	15.3	3.22	1,580	1,800
Verninskoye[2]	1.7	3.11	170	73.4	2.47	5,820	5,990
Alluvials[3]				63.2	0.74	1,500	1,500
Kuranakh[4]				85.3	1.71	4,700	4,700
Total operating mines	27.0	3.85	3,340	662.7	2.55	54,330	57,680
Mine under development							
Natalka[5]	464.2	1.70	25,370	309.1	1.74	17,260	42,630
Total mine under development	464.2	1.70	25,370	309.1	1.74	17,260	42,630
Exploration projects							
Chertovo Koryto[2]	4.1	1.85	250	46.3	1.84	2,740	2,990
Panimba[6]	4.8	2.32	360	11.2	2.32	830	1,190
Razdolinskoye[6]				9.8	3.94	1,240	1,240
Total exploration projects	8.9	2.12	610	67.3	1.82	4,810	5,420
Total	500.1	1.82	29,320	1039.1	2.29	76,400	105,730

1 Audited in September 2012 by Wardell Armstrong International. Competent Person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM.
2 Audited in January 2013 by Micon International Co. Limited. Competent Person: Stanley C Bartlett, PGeo.
3 Audited in July 2012 by Micon International Co. Limited. Ore in thousand cubic metres (m^3), gold grade in grams per cubic metre (g/m^3). Conversion of sands was based on a ratio of two metric tonnes per one cubic metre. Competent Person: Stanley C Bartlett, PGeo.
4 Audited in December 2012 by Micon International Co. Limited. Compitent Person: Stanley C Bartlett, PGeo
5 Audited in October 2011 by Micon International Co. Limited. Competent Person: Stanley C Bartlett, PGeo.
6 Audited in October 2011 by Kazakhstan Mineral Company – Russia (KMC-RU). Competent Persons: Oleg Kim, PhD, GSL and Vladimir Danilov, AIG, GSL.

Deposit	Inferred Ore (million tonnes)	Grade (g/t)	Gold ('000 ounces)
Operating mines			
Olimpiada[1]	160.3	2.78	14,350
Blagodatnoye[1]	11.6	1.94	720
Titimukhta[1]	1.6	1.72	90
Verninskoye[2]	110.1	1.95	6,890
Alluvials[3]	3.3	0.90	90
Kuranakh[4]	7.8	1.35	340
Total operating mines	294.6	2.37	22,480
Mine under development			
Natalka[5]	305.5	1.74	17,050
Total mine under development	305.5	1.74	17,050
Exploration projects			
Chertovo Koryto[2]	2.1	1.64	110
Panimba[6]	24.4	1.79	1,410
Razdolinskoye[6]	17.6	3.50	1,980
Medvezhy Zapadny[7]	23.5	1.83	1,380
Total exploration projects	67.5	2.25	4,880
Total	667.7	2.07	44,410

[1] Audited in September 2012 by Wardell Armstrong International. Competent Person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM.
[2] Audited in January 2013 by Micon International Co. Limited. Competent Person: Stanley C Bartlett, PGeo.
[3] Audited in July 2012 by Micon International Co. Limited. Ore in thousand cubic metres (m^3), gold grade in grams per cubic metre (g/m^3). Conversion of sands was based on a ratio of two metric tonnes per one cubic metre. Competent Person: Stanley C Bartlett, PGeo.
[4] Audited in January 2013 by Micon International Co. Limited. Compitent Person: Stanley C Bartlett, PGeo.
[5] Audited in October 2011 by Micon International Co. Limited. Competent Person: Stanley C Bartlett, PGeo.
[6] Audited in October 2011 by Kazakhstan Mineral Company – Russia (KMC-RU), Competent persons: Oleg Kim, PhD, GSL and Vladimir Danilov, AIG, GSL.
[7] Audited in January 2013 by CSA Global. Competent person: Dmitry Pertel, MSc, AIG, AIE, GAA.

Proved and probable reserves

	Proved			Probable			Total proved and probable
Deposit	Ore (million tonnes)	Grade (g/t)	Gold ('000 ounces)	Ore (million tonnes)	Grade (g/t)	Gold ('000 ounces)	Gold ('000 ounces)
Operating mines							
Olimpiada[1]	22.5	3.87	2,790	260.7	3.25	27,220	30,010
Blagodatnoye[1]	–	–	–	127.3	2.24	9,180	9,180
Titimukhta[1]	2.1	2.92	200	13.2	3.28	1,390	1,590
Verninskoye[2]	1.8	2.89	170	53.2	2.47	4,220	4,390
Alluvials[3]	–	–	–	60.7	0.66	1,290	1,290
Kuranakh[4]	–	–	–	60.4	1.39	2,700	2,700
Total operating mines	26.4	3.73	3,160	575.5	2.49	46,000	49,160
Mine under development							
Natalka[5]	454.5	1.56	22,800	159.4	1.72	8,800	31,600
Total mine under development	454.5	1.56	22,800	159.4	1.72	8,800	31,600
Exploration projects							
Chertovo Koryto[6]	2.9	2.12	200	31.6	2.12	2,160	2,360
Total exploration projects	2.9	2.12	200	31.6	2.12	2,160	2,360
Total	483.8	1.68	26,160	766.5	2.31	56,960	83,120

1 Audited in September 2012 by Wardell Armstrong International. Competent Person: Phil Newal, ARSM, BSc, MCSM, PhD, CEng, FIMMM.
2 Audited in January 2013 by Micon International Co. Limited. Competent Person: Stanley C Bartlett, PGeo.
3 Audited in July 2012 by Micon International Co. Limited. Ore in thousand cubic metres (m^3), gold grade in grams per cubic metre (g/m^3). Conversion of sands was based on a ratio of two metric tonnes per one cubic metre. Competent Person: Stanley C Bartlett, PGeo.
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6 Audited in October 2011 by Kazakhstan Mineral Company – Russia (KMC-RU). Competent Persons: Oleg Kim, PhD, GSL and Vladimir Danilov, AIG, GSL.

2.11. Corporate social responsibility

The Group is committed to the principles of sustainable development and the objective of the removal of environmental, health and safety, and social risks. These risks may adversely affect the Group's interaction with stakeholders and the Group's overall efficiency.

In 2013, the Company continued implementation of measures aimed at improving and developing its policies in these crucial areas.

Environment

The Group's activities, like those of all other miners can have a severe environmental impact, damaging flora and fauna and their habitats. Soil and subsoil are stripped in advance of mining activities. Ore processing involves the use of dangerous chemicals, including cyanide, which could pose a significant environmental threat to watercourses and the ecosystems that depend on them. Our operations are major consumers of energy produced from fossil fuels and therefore our GHG (green house gases) emissions are significant.

The Company keeps its environmental policy under continual review, seeks to minimise its use of dangerous chemicals and has put water management systems in place. At present, there are no legal requirements with regard to GHG emissions. However, while replacement and upgrading of gas-purifying and ventilation systems would entail significant investment, the Company feels that, as well as being environmentally responsible, such investment would offer a competitive advantage in the long term.

As a responsible mining company Polyus Gold conducts asset retirement assessments and has developed life of mine plans in order to mitigate long-term risks for all its stakeholders, planning the allocation of the necessary funds and land rehabilitation measures in advance.

Securing mining licences is crucial for the Group's long-term survival and hence strict compliance with legislation is essential. The Company monitors legal developments closely and participates in discussions on relevant legislative proposals. For information on the environmental risks posed by the Company's operations, and the measures put in place by the Company to mitigate against them, see section 2.5 "Principal Risks and Uncertainties" and section 3 "Sustainability report".

Employees

The Company, regrettably has to report three work related fatalities in 2013 and considers this totally unacceptable. Safety remains a core value and is of paramount importance to the Group, in all its endeavours. The Company's current focus is on ensuring immediate response, medical aid and evacuation in case of emergency. The Company strives to prevent any accidents and injuries at its operations and constant vigilance and preparedness are prerequisites for fostering a culture of safety. For information on the safety challenges at our mines and the Company's plans to mitigate against them refer to section 3 "Sustainability report".

Polyus Gold is one of the largest employers in the areas where it operates. Attracting and developing talented and motivated employees who share the corporate values of Polyus Gold is crucial to ensuring continued success. Deterioration in the quality of professional training standards in Russian educational institutions and the consequent shortage of qualified specialists could pose a serious long term threat to the Company. Expansions in the Group's current operations and potential development projects will require a growing demand for highly-qualified professionals. Growth opportunities therefore might be limited by the inability to recruit appropriate staff. For information on the challenges faced by the Company in this area and its efforts to mitigate against them, refer to section 3 "Sustainability report".

Social, community and human rights

Polyus Gold strives to establish positive relationships with individuals and legal entities to become more effective in achieving the combined social and economic goals of the Company and local communities.

The Group recognises the necessity to assess the needs of communities in the regions where it operates and to work to ensure that its operations are beneficial to those communities. The Company aims to be honest in its dealings with local people about the Company's true impacts on the environment and the social and economic situation.

Polyus Gold operates in strict compliance with Russian legislation, which incorporates much international human rights legislation. The Company's Human Rights policy was approved by the Board on 13 December 2013, and the Stakeholder Engagement policy was signed-off by the Committee Chairman. These policies set new standards and parameters for the Company's work with the local communities where the Group operates. No issues regarding human rights were identified during 2013. For information on the Company's work in this area and the measures taken to mitigate any challenges see section 3 "Sustainability report".

Diversity

The Group's recently introduced diversity policy (see section 6.4 "Diversity policy") commits the Board to open and transparent recruitment policies and the appointment of the most suitable candidate for every role.

Since its shares were admitted to the Premium segment of the London Stock Exchange, the Company has always had female representation on its Board and in its Senior management team[1].

Position at year-end 2013

	Directors	Senior management	Employees
Male	87.5%	93.3%	84.9%
Female	12.5%	6.7%	15.1%

2.12. Going concern statement

The Group has a moderate financial position, solid operations and significant ore reserves. We start 2014 with USD 808,675 thousand in cash and cash equivalents and USD 1,205,586 thousand in debt. The 2013 financial results showed that with an average realised gold price of USD 1,385 per oz) and a RUB/USD exchange rate of 31.85 (for more information please refer to 2.8.2 "External market factors affecting the Group's financial results") the Group generated Adjusted profit from continuing operations[2] of USD 563,791 thousand from its existing mining operations. Excluding growth capital expenditure requirements, our operating cash flows are sufficient to finance our working capital requirements (USD 283,148 thousand in 2013). The directors are confident of financing the remaining capital expenditure required to complete the Natalka development.

In assessing the Group's going concern status, the Directors have taken account of the Group's financial position, expected future trading performance, its borrowings and available credit facilities and its capital expenditure commitments, together with other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of these consolidated financial statements with some uncertainties related to external market factors. The Directors believe that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements.

The Strategic report was approved by the Board of Directors on 24 March 2014 and signed on its behalf by

Kobus Moolman
Chairman, Audit Committee
London, 24 March 2014

[1] For current composition refer to section 6.8 "Senior management".
[2] See section 2.8.1 "Financial highlights".

Magadan region

Standing atop a rocky promontory, which forces its way hundreds of metres out into the wild waters of the Sea of Okhotsk, is the lighthouse at Cape Ram.

Sustainability report

3

MATERIALITY MATTERS

Global Reporting Initiative™

AT THE TIME OF PUBLICATION THE G4-17 TO G4-27 DISCLOSURES WERE CORRECTLY LOCATED IN THIS G4 CONTENT INDEX AND FINAL REPORT.

2014

3. Sustainability report

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About this Report

The **mission** of Polyus Gold International Limited stated in its Code of Corporate Ethics, is to develop natural resources and human potential for the benefit of shareholders, employees and the local community.

PGIL firmly believes that the success of its business is inextricably intertwined with its sustainability performance. The Group constantly strives to enhance its management of sustainability and its data collection procedures so as to obtain timely, reliable and complete information on its performance. In 2013 the Group continued to develop its sustainability framework, creating new policies and procedures and modifying its governance structure for managing sustainability.

The Group first began publishing information on safety, environmental protection and social responsibility in 2006. Initially, the Company followed a biennial reporting cycle, before switching to reporting on an annual basis in 2012. The Company's previous Sustainability Report was published in 2013 and covered the year 2012.

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

This, the Group's sixth sustainability report – Sustainability Report for the Year 2013 (the Report) reflects its sustainability performance for the period from 1 January 2013 to 31 December 2013.

Guidelines and standards

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

The report has been prepared with regard to the G4 Principles for defining report quality, these are balance, comparability, accuracy, timeliness, clarity and, enabling comparison with the Group's previous reports and the reports of leading international mining companies. References to information sources covering the Standard disclosures are presented in the GRI Content Index.

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

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

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

Report boundaries[1]

GRI Guidelines were applied when defining the boundaries of the report as a whole, as well as for individual performance indicators. According to these guidelines, the report should cover the subsidiaries over which the Group has operational and financial control, as well as subsidiaries that impact upon the Group's operational, financial, social and environmental performance results.

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

- CJSC Polyus (Krasnoyarsk BU);
- OJSC Lenzoloto (Irkutsk alluvial BU);
- OJSC Pervenets (Irkutsk ore BU);
- OJSC Aldanzoloto GRK (Yakutia Kuranakh BU);
- OJSC SVMC (Exploration BU); and
- OJSC Matrosov Mine (Magadan BU),

as well as the Group's professional services:

- LLC Polyus Stroy (Construction service);
- PSF Polyus Shield LLC (Security service);
- CJSC Polyus Logistics (Logistics service);
- LLC Polyus Project (Engineering service); and
- Polyus Energy (Energy service) and its subsidiaries: CJSC Vitimenergo, CJSC Vitimenergosbyt, CJSC Mamakanskaya Hydroelectric Power Plant.

For the first time, in this Report data on environmental performance indicators relating to the above professional services is presented broken down by professional services.

The terms 'the Group' and 'the Company' as used in this report refer to the above group of BUs and professional services.

[1] G4-17, G4-18.

Data measurement techniques

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

Information on health and safety, employees and social issues is acquired through the internal reporting system. Labour performance indicators are calculated based on headcount as at the end of 2013, and include, if applicable, information on the managing Company for the Russian assets (OJSC Polyus Gold, located in Moscow). Environmental data is mainly collected through federal state statistical monitoring forms, which are complemented by internal reporting forms. The forms are aggregated regularly on an ad hoc, daily, monthly, quarterly or yearly basis depending on the requirements of the Company.

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

All PGIL financial performance indicators are denominated in USD, which is also the currency used in the Group's audited IFRS consolidated financial statements for the year ended 31 December 2013.

Report content[1]

In defining the report content, the Group was guided by the principle for defining report content stipulated by GRI Guidelines:

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

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

In 2013, the Group applied a more formalised approach to materiality assessment (see "Sustainability Approach"). The Report focuses on the following issues, identified as material in terms of their impact on the Group's activities and on stakeholder interests and expectations:

- the potential impact on the Group's business development strategy;
- the economic, social and environmental impacts on communities affected by the Group's operations; and
- stakeholders' interests and expectations.

The material issues may have an impact both within and outside of the Company, affecting the Group's performance as well as the communities it operates in. Particular emphasis was put on managing these issues during the reporting year, as is reflected in this Report[2].

Restatements and significant changes

Comparison with the 2012 Sustainability report, shows that there have been no material changes in applicable methods for measuring and presenting data, or to reporting boundaries in relation to the Group as a whole[3].

In 2013, the Group sold its assets in Kazakhstan.

Assurance

The Group is well aware that independent sustainability report assurance enables the Company to improve the quality of reported information (including compliance with the principles of balance, accuracy and reliability as they relate to the presented performance data), satisfy stakeholders' requirements and determine the effectiveness of internal processes. With this in mind, the Group engaged a professional firm to provide sustainability reporting assurance services.

In 2013, a decision was made to take a further step in ensuring report credibility. This Report features reasonable assurance of a number of GRI standard disclosures, in order to increase the transparency and quality of the reporting information. The standard disclosures for which reasonable assurance has been given are indicated in the GRI Content Index.

More detailed information on the boundaries and the subject of assurance can be found in the "Independent Assurance Statement" section of the Report.

Contact information

Feedback from stakeholders on the completeness, objectivity and materiality of information disclosed in sustainability reports plays a key role in helping the Company to improve its management of sustainability and its non-financial reporting processes. Your questions, comments or suggestions regarding this Report are therefore very welcome, and can be sent to:

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

1 G4-18.
2 G4-20, G4-21.
3 G4-22, G4-23.

3.1. Sustainability approach

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Comprehensive improvement of all aspects of the Group's activities for the benefit of stakeholders is PGIL's strategic priority.

PGIL strives for constant improvement in all aspects of its activities taking into account the interests of a wide range of stakeholders.

The Company strives to achieve production growth while adhering to the principles of sustainable development. Being aware of its responsibility to investors, employees and communities in the regions where it operates, PGIL aspires to be a forward-thinking and innovative Company, acting proactively to meet all the challenges posed by the demanding and versatile environment in which the Group works.

3.1.1. Materiality and risk management

At present, the materiality assessment process is based on an extensive analysis of the risks that the Group faces. Until 2012, the Group's focus with regards to identifying material issues was focused on identifying production risk. Extensive consultations were held with business unit specialists; various mitigation actions were brainstormed and analysed, and an assessment methodology was developed, laying the foundation for risk prioritisation through risk matrix compilation. Risks were reassessed on a half-yearly and annual basis after BUs had filed reports on the risks to their business[1].

In late 2012, the Company moved towards incorporating strategic risks, which include a wide range of sustainability aspects. The overall approach to consolidation of material issues resembles that of production risks in previous reporting periods, however, the risks are also defined at a much more senior level within the Group as well (the Corporate Centre and BU top management). The sustainability risks evaluated as significant are included in an action plan that specifies responsible risk managers in each BU and deadlines and allocated funds for the management of the identified risk. The results of the risk management activities are reviewed by the Board of Directors on a half-yearly basis.

Having adopted the GRI G4 Guidelines, the Company embarked on a path of gradual but substantial internal change. The broad spectrum of GRI G4 requirements for materiality assessment calls for a significant shift in existing internal processes and procedures, and is not yet fully incorporated in the Company's day-to-day activities. PGIL realises that there is still a long way to go, but the Company is keen to tackle all the challenges involved and meet and exceed its goals.

The HR, H&S, environmental and community development risks thus identified are the most pressing faced by the Company. Although stakeholder consultation is not yet part of the materiality assessment process, the Company does not intend to stand still and plans to further enhance its procedures in this field. Our first step in this direction was adoption of a Stakeholder Engagement Policy in the reporting period[2].

The main material issues were defined with a view to identifying the following:

- the potential impact on the Group's business development strategy;
- the economic, social and environmental impacts on communities affected by the Group's operations; and
- stakeholders' interests and expectations.

[1] G4-18.
[2] G4-20, G4-21.

Aspects[1]	Risks and identified material issues (For more detailed information please see Section 2.5)	Our response
Employees	• A shortage of qualified specialists. • Deterioration in the quality of professional training for the mining industry.	• Attracting and developing talented and qualified specialists. • Strengthening the HR brand. • Building strategic relationships with educational institutions. • Youth development programmes.
Health and safety	• Fatalities. • Insufficient medical emergency response and medical emergency evacuation plan.	• A monitoring and reporting system is in place, with immediate in-depth incident root cause analysis. • Health and safety management system in compliance with OHSAS 18001. • Implementation of minimum occupational health requirements and medical emergency response. • Third party health and safety audits with follow up action plans. • A comprehensive risk assessment plan is being developed and implemented (field level risk assessment, workplace hazard identification and risk assessment) together with a Business Continuity Management system.
Environment	• Cyanide management. • A requirement to mitigate the effect of the greenhouse gases release. • Changes in environmental controls and regulations. • Inadequate water balance. • Inaccurate estimates of closure costs; insufficient resources.	• Comprehensive review of the Company cyanide management operation. • Developing and incorporating of a Greenhouse Gas Policy. • Ongoing awareness on regulation updates. • Assessing the water balance, water management plans and designing water treatment facilities. • Developing mine site closure plans; Asset Retirement Obligation (ARO) and Life of Mine (LoM) closure cost estimates.
Communities	• Negative health and environmental outcomes in the event of environmental accidents. • Lack of awareness about the Company's activities among local communities.	• Building strategic relationships with local authorities including supporting youth development programmes. • Roll out of comprehensive environmental monitoring programme; implement mitigation measures based on Environmental Impact Assessment (EIA) and monitoring results. • Stakeholder engagement policy roll out across BUs.
Supply chain	• Poor quality of products and services. • Supply chain delays.	• Streamlining transparent procurement processes. • Thorough supplier assessment.

[1] G4-19.

3.1.2. Stakeholder engagement[1]

The Company strives to engage openly and proactively with all its stakeholders. In its relationships with individuals, legal entities and the authorities PGIL is guided by its Corporate Code of Ethics. In fulfilling its commitments to constant development and improvement, the Company developed two crucial documents in 2013.

- A Stakeholder Engagement Policy; and
- A Human Rights Policy.

The Stakeholder Engagement Policy which was approved in December 2013 aims to formalise the Company's interaction with stakeholders. PGIL is committed to identifying and engaging project stakeholders and to develop strategies that are socially and culturally sensitive and tailored to the needs of each stakeholder group. These strategies aim to inform stakeholders about Polyus Gold activities, address their concerns and expectations, provide appropriate feedback and enable collaboration.

In its Human Rights Policy, the Company pledges to determine and assess the impact of its operations on human rights, to establish a confidential grievance mechanism, and to monitor and report on the implementation of the Policy. These documents are designed to radically overhaul the Company's processes and interactions.

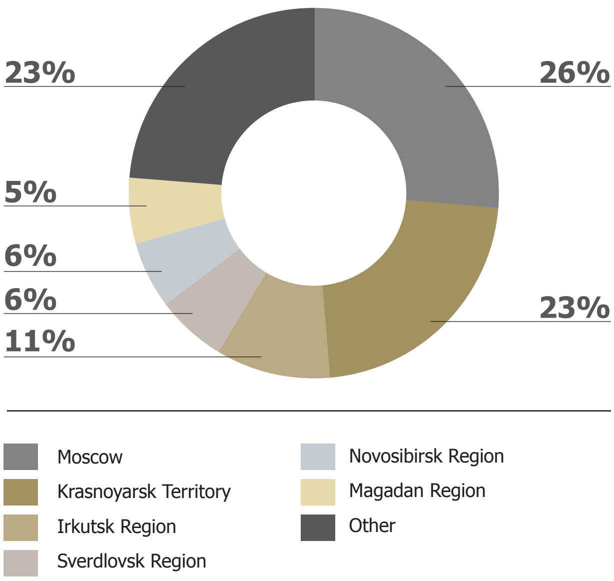
2013 also saw the appointment of a sustainability and community manager at the Natalka project, paving the way for the introduction of such a position at all operations. PGIL is gradually embracing international best practice, making stakeholder engagement an inherent part of its processes and fostering a culture of diversity and mutual respect.

3.1.3. Supply chain management

PGIL does not currently conduct rigorous assessment of its supply chain against sustainability criteria. The key assessment factors in the bidding process are the credibility of the potential suppliers and the quality of the products and services. All supplier contracts are scrutinized by Legal Department specialists to ensure compliance with Russian law. The majority of the Company's suppliers are located in Russia and comply with Russian legal requirements, including the Labour Code, which guarantees labour rights. Other suppliers comply with the requirements of the national legislation of the countries where they are registered. When transportation of hazardous substances is required, the Company engages only licensed providers. In 2013 about 3% of all the Company's suppliers were engaged in the transportation of hazardous substances. Potential counterparties have to fill out a questionnaire and to provide charter and other documents which are also required for anti-money laundering purposes.

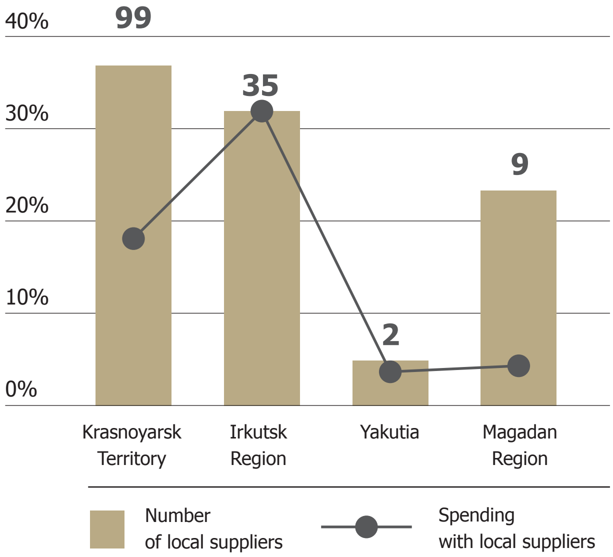
The Group's suppliers include local businesses in areas where the Group has operations, as well as large international suppliers. The Group endeavours as much as possible to engage and support local suppliers, with a view to enhancing community development opportunities. In its procurement activities the Company at BU level also takes into account the interests of small- and medium-sized businesses.

Distribution of suppliers by region (%, 2013)



[1] G4-24, G4-25, G4-26, G4-27.

Local suppliers (Number of companies and percentage of total spend 2013)



A priority in 2013 was increasing procurement transparency and attracting new suppliers, so as to achieve lower purchase prices and improved delivery times. In addition, there was a shift in focus towards direct contracts with manufacturers.

Regulations on the Tender Committee were developed and implemented, stipulating cross-functional collective decision-making on major purchases.

PGIL is working actively on developing and implementing procurement risk management measures.

The Company is considering expanding its supplier assessment procedures to cover environmental performance, labour practices, human rights and social impact, including the introduction of potential supplier auditing.

3.1.4. Corruption

The Group complies fully with international and Russian anti-money laundering and counter-terrorism financing legislation and applies anti-corruption procedures and programmes. The Group has approved and complies with its policy on 'Internal Regulations for Counteracting the Legalisation (Laundering) of Proceeds from Crime and Terrorist Financing', and an anti-corruption policy based on the UK Bribery Act, and has appointed officers responsible for implementing its anti-corruption procedures and programmes.

The anti-corruption measures require all employees to remain vigilant in order to identify potential incidents of corruption and corruption risks. In the reporting period, an e-learning program on the anti-corruption policy was developed and widely implemented. The programme is mandatory for all HQ employees and over 90% of them passed it successfully during the reporting period. Feedback on its content and quality has been positive. An educational programme on counteracting the legalisation of illegally acquired proceeds is under development. For more information please see Section 6.7 of this Report.

3.1.5. Commitments to external initiatives

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

- The Russian Union of Gold Producers (a non-profit organisation);
- The Partnership of Russian Mining Operators (a non-profit organisation);
- The Russian Union of Gold Prospectors (a non-profit organsation);
- The Russian Union of Mining Surveyors (a public body);
- Mining Work (a non-profit partnership that promotes the mining industry);
- The Eurasian Business Council (a non-commercial partnership promoting trade and economic ties);
- The International Council on Mining and Metals (ICMM) (the Group is not yet a member but is in the process of achieving full compliance with ICMM requirements).

3.2. Independent assurance statement

Independent assurance report by Deloitte & Touche CIS ZAO ('Deloitte') to the Board of Directors of Polyus Gold International Limited ('PGIL') on the 2013 Sustainability Report ('the Report') for the year ended 31 December 2013.

Our opinion and conclusions

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

Reasonable assurance opinion:

- the selected sustainability performance data, listed under 'reasonable assurance' below, and compiled as described in PGIL's basis of reporting and presented on pages 67–69; 79–85 are fairly stated;
- the PGIL sustainability reporting at a GRI G4 comprehensive level is, in all material respects, fairly stated.

Limited assurance conclusion:

- nothing has come to our attention that causes us to believe that the selected sustainability performance data, listed under 'limited assurance' below, and compiled as described in PGIL's basis of reporting and presented on pages 71–77, 86 are materially misstated.

Scope of our work and the assurance standards we used

We have been engaged by the Board of Directors of PGIL to perform assurance procedures on:

Reasonable assurance

- Total energy consumption (Mwh);
- Total air emissions (tonnes);
- Total waste generated (thousand tonnes);
- Total water consumption (m^3);
- LTI frequency rate (per 200,000) hours worked;
- Number of fatalities;
- Number of new cases of occupational disease.

Limited assurance

- Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity;
- Average hours of training per year by employee gender and employee category;
- Benefits provided to full time employees;
- Percentage of operations with implemented local community engagement, impact assessments, and development programs;
- Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.

GRI assurance

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

We carried out assurance on the selected key performance indicators in accordance with the International Standard on Assurance Engagements 3000 (ISAE3000).

To achieve limited assurance the ISAE3000 requires that we review the processes, systems and competencies used to compile the areas on which we provide assurance. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls.

To achieve reasonable assurance the ISAE3000 requires that we review the processes, systems and competencies used to compile the areas on which we provide assurance.

Considering the risk of material error, we planned and performed our work to obtain all of the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion.

Our key assurance procedures

To form our conclusions, we undertook the following procedures:

- interviewing PGIL personnel, including the Sustainability reporting team;
- analysed and reviewed on a non-statistical sample basis the key structures, systems, processes, procedures and controls relating to the collation, aggregation, validation and reporting processes of the selected sustainability performance indicators;
- checking the report against the requirements of GRI G4 comprehensive level;
- reviewing information and reasoning about the Reports' assertions regarding sustainability performance in 2013; and
- reviewing the content of the Report against the findings of the aforementioned procedures and, as necessary, provided recommendations for improvement.

Where data relating to prior reporting years has been restated by PGIL no additional work has been undertaken by Deloitte to review the accuracy and completeness of the restated data. No assurance is provided over restated data.

Our independence and competencies in providing assurance to PGIL

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

Roles and responsibilities

- The Directors are responsible for the preparation of the Sustainability Report and for the information and statements contained within it. They are responsible for determining the Sustainability goals, performance and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.
- Our responsibility is to express independently, an opinion on the Sustainability Report as defined within the scope of work above (7 indicators for reasonable assurance and 5 indicators for limited assurance) to PGIL in accordance with our Engagement Letter. Our work has been undertaken so that we might state to PGIL those matters we are required to state to them in this statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than PGIL for our work, for this statement, or for the conclusions we have formed.

Deloitte & Touche CIS ZAO
Moscow
24 March 2014

3.3. Message from the Chief Operating Officer

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Dear Friends,
When I reflect on our performance in 2013, I am proud of our progress as an organisation in terms of sustainability.

At PGIL, we believe that our employees are our most valuable asset. We aim to make sure that when children of our employees grow up and come to work for us, they will see Polyus Gold as a safe, caring, and trustful company to work for. This approach helps us to achieve the highest targets and satisfy the most demanding shareholder expectations.

This report details our performance in several key areas affecting the Company's business and stakeholders: Health and Safety, Sustainability Governance, Environmental Stewardship, Community Development, Employee Engagement, and Stakeholder engagement.

Health and safety is the most critical part of Polyus Gold's business and sustainability strategy. We continue to work towards achieving zero fatalities. We have identified and analysed all the incidents for 2009–2012 and implemented 'Golden Safety Rules', which are designed to prevent the most common operational incidents. These rules are now used in each of our operating Business Units. Moreover, our 'Courageous Safety Leadership' training was further incorporated, with the aim of promoting interdependent health and safety awareness. We believe that with a large number of newly trained employees, behaviors are changing, to the benefit of safety and health.

Our environmental management system is another priority for Polyus Gold's sustainability strategy. This year, we focused on introducing an integrated management system addressing both environmental and safety aspects.

Our success is driven by our employees' diverse backgrounds, skills, experience and talents. At Polyus Gold we believe that a culture of mutual respect, transparency and inclusion improves employee retention and engagement, and enables the Company to deliver high performance and maintain a competitive advantage. We are committed to the further improvement of our labour practices, accommodating international best practices and pursuing an alignment of corporate and individual goals.

We continue our work with local communities. This year, we have established a new stakeholder engagement policy, which we will put into practice in 2014.

Our sustainability governance model is a key part of our success in adhering to our ethical and sustainable values. This year, we have managed to further integrate this model at different levels of our Company. At the Board of Directors level, the audit committee took an active role in improving our ethical and sustainable performance. The committee provided greater accuracy in analysing data, and developing corrective and future action plans.

Transparency is one of our fundamental business principles: we strive to increase the level of transparency in our reporting each year, and this year we prepared our integrated report in compliance with GRI G4 Guidelines. We continue working with Deloitte as our independent auditor and for the first time this year we claim 'reasonable assurance' for several indicators.

Our goal is to maintain our successful business performance and, in doing so, to be among the industry leaders in sustainability. We realise that this is a difficult path to take. Yet even though it sounds ambitious, we are taking small steps and are coming closer and closer towards this goal every year.

This report is an opportunity for us to present our achievements and to share our plans for the future of Polyus Gold and the environment we operate in. I look forward to your feedback, which will help us to improve our performance.

With kind regards,
Anthony J. Nieuwenhuys
Chief Operating Officer

3.4. Sustainability governance

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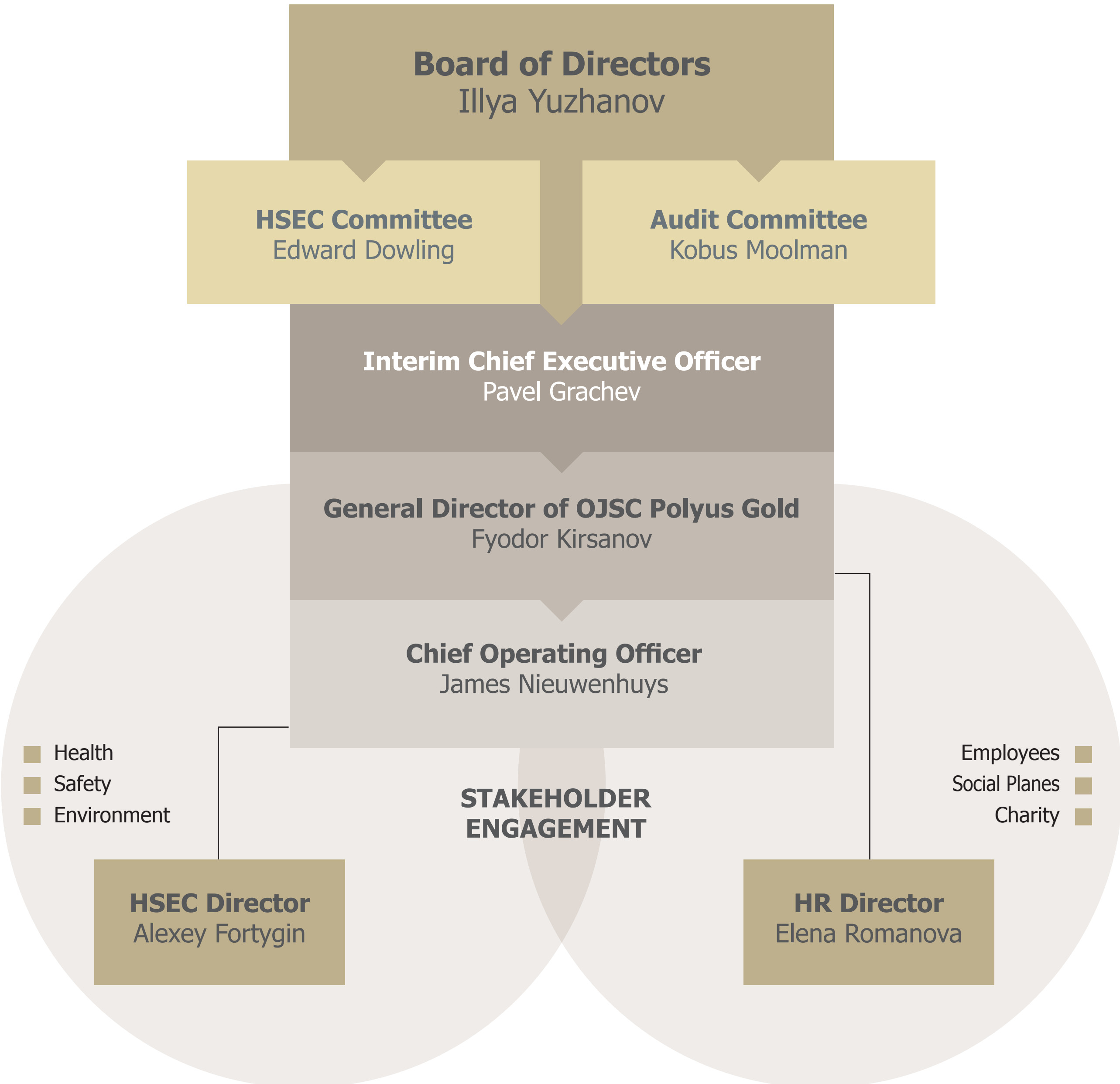
Polyus Gold has robust sustainability governance procedures to oversee its sustainability agenda and ensure its long-term value. The Group continues to implement its sustainability principles at every stage of its operations.

The Group believes that changes made in 2013 will result in improved sustainability management in 2014 and beyond. The diagram below reflects these changes and shows the Group's sustainability governance structure.



* In the second half of 2013 the responsibility for charitable activities was handed over to the Governmental Relation department.

Olimpiada. Exploration at deep-horizons.

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

In 2013, the Group restructured its sustainability governance and redefined the processes carried out by the HSE and HR departments. Two regional managers were appointed to act under the HSE Department, while the HR department delegated its responsibilities for interacting with its business units to one division and for personnel administration and organisational development to another.

One of the main positive changes in the Company's sustainability governance structure in 2013 is the active role of the Audit Committee in developing and incorporating the best sustainability practices at all company levels. Throughout the last year, the Polyus Gold management team have been working closely with the Audit Committee, exchanging ideas on sustainability issues, have sought feedback on the Company's Sustainability report, and developed new best practice policies for the Company. In addition, the Audit Committee took an active part in preparing the Group's sustainability report in compliance with GRI G4. In 2013, the Polyus Gold International Limited Sustainability report has been audited by Deloitte, and some indicators have been verified with "reasonable assurance". The Group is committed to complying with the highest standards of the ICMM sustainability programme.

3.5. Health and Safety

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Safety management and investment in health and wellbeing programmes remain at the core of the Group's zero harm strategy.

Target	Status	Plans
Zero fatalities	Not achieved in 2013 but fatality rate was down: there were three work-related fatalities at the Group's sites. The Company considers any fatality as totally unacceptable and aims to achieve zero fatality rate in 2014.	Zero fatalities – permanently.
Development and implementation of an accurate and timely health and safety reporting system	In progress. The Company continued to upgrade its internal reporting system with the aim of comprehensive disclosure of sustainability performance indicators under GRI guidelines (G4).	To be continued in 2014.
Health and Safety Management System (HSMS) roll-out	HSMS in operations that have already implemented OHSAS 18001 conform to this standard.	Further development of HSMS for all Group's operating BUs.
DuPont Safety Leadership programme on zero lost time injury rate roll-out	A programme for the Olimpiada mine site was discussed and agreed with the mine management.	To be continued in 2014–2015.
Compliance with ICMM Health and Safety principles, including policies, procedures and performance indicators	Gap analysis has been performed; report to be issued in 2014.	To be continued in 2014.
Compliance with the Cyanide Code	Detox facilities at the Verninskoye and Olimpiada mines are to be commissioned.	To be continued in 2014.

3.5.1. Approach

Safety remains a core value of the Company, and is the first priority in all its endeavors. The Group truly believes that everyone who works with Polyus Gold has the right to return home safely, and it makes every effort to achieve this. The Company believes that all injuries are preventable, and is committed to integrating safety management into all aspects of the Polyus Gold business.

In the reporting period, the Group continued its committed approach to health and safety by identifying all potential risks, learning from previous incidents and implementing risk mitigation processes, technologies and behaviors.

The Group's approach to safety is outlined in its Health and Safety Policy, a comprehensive framework written in accordance with OHSAS 18001 and supported by a set of safety principles and mandatory safety standards. This underpins the delivery of the Company's safety vision, which outlines a risk-based approach to safety. To achieve its high safety target – zero fatalities – the Group is implementing a health and safety management system (HSMS) at all its operating mines and development project sites. The Group's key health and safety commitments, which are fundamental to the HSMS, are highlighted on the Group's corporate web page: http://www.polyusgold.com/sustainability/health_and_safety/.

The Group's health and safety activities are led by the Health, Safety, Environment and Community Committee, the function and responsibilities of which are described in details in Section 3.4 of this report.

3.5.2. Highlights of 2013

The Group continues to place the highest importance on upholding its values and ensuring that safety is paramount in every activity. Regrettably, although the Company achieved safety improvements in the reporting period, three people lost their lives due to safety incidents while working at the Company's most challenging *alluvial* sites. The Group considers any fatality as unacceptable and is extremely saddened by these fatalities.

An incident and accident monitoring and reporting system is in place and immediate in-depth investigations take place: the accidents were thoroughly analysed, with the involvement of an independent consulting company specialising in health and safety audits, with relevant follow-up action being taken.

The Company constantly strives to improve safety, and to reinforce its strong safety culture and Health and Safety Management structure. In the reporting period, the Company placed extra emphasis on health issues. As planned, a regional occupational health manager, reporting to the HSEC Director, was taken on, to concentrate specifically on improving employee health.

Another major initiative to improve occupational health standards at the Group was the implementation of an internal standard on medical emergency response and minimum occupational health requirements in each Polyus Group BU. In line with this standard, medical services in each BU are being formed and equipped. A minimum standard for Personal Protective Equipment (PPE) and work uniforms was completed and is expected to be approved in 2014. In 2014, the Group will continue to monitor the implementation of the standards and update them if necessary.

As part of its continuous improvement work, the Group began registering all medical treatment injuries, so as to monitor and reduce at-risk behavior at the Group BUs. The next step will be to monitor and control a wider range of employee health indicators, so as to identify at risk groups and provide timely treatment.

The Group continued to conduct health and safety audits, inviting leading consulting companies with vast experience in Health and Safety and compliance assessment. With their assistance, the Company strives to conduct integrated audits covering both OHSAS 18001 and ISO 14001 management system requirements. The Company will extend this integrated approach to all operating BU's, leading to the development and implementation of an integrated HSE management system. In 2013, the Company put in place emergency response procedures at almost all the Group's operational sites. In addition, as planned, the Group focused on increasing the efficiency of the system of medical checks for drivers and other employees, including pre-journey, pre-shift check-ups. This system is being tested at several of the Group's sites and in future will be operated automatically.

As part of its work to eliminate fatalities, the Company conducted an analysis and prepared classification of the fatalities and LTI's from 2010 to 2013. Among the main causes of the accidents identified were: falls from heights, traffic incidents, and machinery and equipment related incidents. A five-step safety risk assessment procedure was developed and implemented across Group sites. This helps personnel to pay special attention to potential safety risks (before job assignment) that may be avoided if anticipated.

Another initiative implemented by the Company at all the Group's sites was a procedure for root-cause analysis of accidents and incidents. The aim here is to identify the core causes of accidents, not so as to punish irresponsible personnel, but in order to eliminate the unsafe conditions and at-risk behavior, thus minimising and eliminating the number of accidents.

Every accident is reported regardless of its outcome: whether lost time injury accidents are classified or not as work related, the reporting procedure is always thorough and executed promptly (the exact time depends on the accident's severity, but will never be more than 24 hours). Each flash report contains an accident description, preliminary root causes and immediate actions taken. After an accident root cause investigation, a detailed root cause analysis report is prepared and distributed in the affected BU.

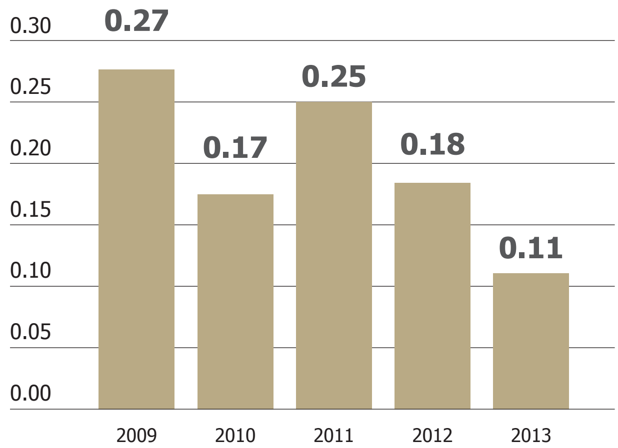
As part of a programme to improve the Health and Safety management system, in collaboration with DuPont, a Sustainable Solutions Safety Leadership Programme was developed for PGIL operating sites.

The training programme addressed issues related to the organisation of the safety management system in the Company, improving the efficiency of the system, the leader's role in changing the safety culture, the distribution of responsibilities, risk assessment, accident root cause identification and mitigation, etc.

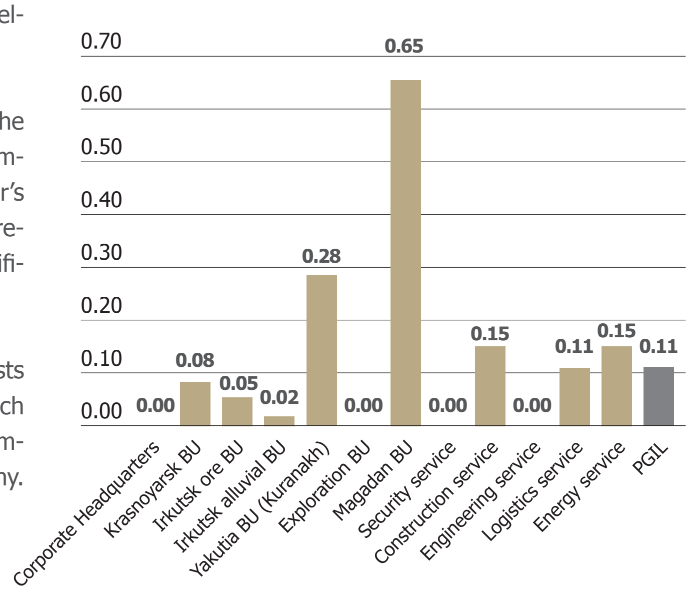
In future, the Group plans to engage DuPont specialists again to introduce safety initiatives at PGIL BUs. One such initiative is a behavior based audit, aimed at consistent improvement in the health and safety culture at the Company.

3.5.3. Performance results

LTI frequency rate (employees) (per 200,000 hours worked)[1]



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



[1] The data for 2012 was amended to reflect changes to accounting methodology.

3.6. Employees

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Our major aspiration is attracting, retaining and developing highly talented and diverse employees within a healthy and safe workplace, to foster sustainable development.

People are crucial to the success of the Company. The wide geography of the Company's activities and the scale and complexity of our projects provide excellent opportunities for professional and career growth.

Code of corporate ethics:
The Group's mission is to develop natural resources and human potential for the benefit of shareholders, employees and the community.
The Group's greatest asset is its people. The basic principles of corporate ethics are a logical continuation of our mission and are based on respect for fundamental human rights, such as freedom from any discrimination, freedom of thought, conscience and religion, freedom of peaceful assembly and societies, freedom of opinion and expression.
One of the Rules of the Code of Corporate Ethics reads as follows:
Respect for the individual
Employees have the right to fair and just treatment. Discrimination and harassment of any kind are contrary to this Code and are unacceptable.

Target	Status	Plans for 2014
Developing a values-based management system	**In progress.**	To be continued in 2014. Development and implementation of the System.
Promoting the Group's in the labour market so as to attract the best specialists	**In progress.** Career portal successfully launched. Monitoring and addressing Company-related feedback on the Internet.	To be continued in 2014.
Employee professional development	**In progress.** Creating training centers.	To be continued in 2014.
Enhancing the recruitment system	**In progress.** Communications strategy developed.	To be continued in 2014. Developing corporate recruitment standards.
Developing remuneration and incentive systems	**In progress.** The process of unifying the remuneration system across BUs continued in 2013.	To be continued in 2014. Implementing a grading system in Corporate Headquarters.
Organisational development	**In progress.** Unification of the BU organisational structures is underway.	To be continued in 2014.

3.6.1. Approach

Polyus Gold is one of the largest employers in each of the areas where it operates. Each ounce of gold mined by the Company creates jobs for many people. Attracting and developing talented and motivated employees aligned with Polyus Gold's corporate values is crucial to ensuring continued success. The Company therefore aspires to ensure that all its labour practices follow the principles of sustainable development. This approach focuses on:

- creating safe working conditions;
- training staff to identify and eliminate hazards at work;
- encouraging the professional growth of the Company's specialists; and
- improving employees' social conditions and supporting local communities.

Polyus Gold's human resources policies aim to provide the Company with an effective and socially stable workforce capable of meeting current and future challenges.

3.6.2. Highlights of 2013

Organizational development
The reporting year saw intensive activities to enhance the Company's human resources (HR) management as well as changes in the organisational structure. To improve HR processes and facilitate achievement of the Group's strategic goals, two functional lines were created within the HR Department – one responsible for interaction with the BUs and the other for personnel administration and organisational development.

In line with the goals set for 2013, extensive work was conducted on unifying the BU organisational structure, focusing on aligning business processes both within BUs and between BUs and the Corporate Centre. A new organisation structure based on the 'client-contractor principle' was successfully developed and implemented in the Logistics Service. At the Irkutsk BU (an ore unit), the new organisation structure is at the approval stage and is supposed to be implemented in 2014. Development the organisational structure for the Natalka project is also at the final stage.

The personnel aspects of some other activities such as centralisation of the procurement function and development of an equipment reliability system were also addressed.

Incentives
Another important aspect of HR management at the Company is the unification of the incentive systems across the BUs. Each BU system was analysed to determine where payments need to be standardised. However, due to a number of obstacles, including changes in top management, some goals set for 2013 are still to be achieved. Development of a grading system and implementation of a values-based management system were postponed until 2014.

Employee development
Because the Group understands the importance and value of its employees, it strongly believes that developing its employees is crucial to maintaining a competitive advantage in a constantly changing and challenging economic environment. To ensure that its workforce is highly qualified, the Group provides a wide spectrum of training opportunities and skills and career development opportunities.

The internal demand for learning opportunities has increased, and this in turn has lent new significance and importance to the Group's existing internal learning and development system.

In order to improve the availability and accessibility of employee training, the Group has continued to make use of e-learning solutions. An induction programme, based on the existing e-learning course 'Our Work is Gold', has been updated and is being successfully implemented by the Group in line with other e-learning courses related to personal motivation, project management, successful negotiations and industrial safety. An additional plus has been that the above e-learning initiatives have helped reduce training costs.

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

All major operational BUs (Krasnoyarsk BU, Irkutsk BU (ore unit), Yakutia BU (Kuranakh)) have **training centres**, that provide a wide range of professional training programmes for personnel of the respective BUs as well as for the Group's Professional Services operations and contractors. Such a centre is being created at the Magadan BU (Natalka mine) and is expected to start operating in the spring of 2015.

All training programmes for occupations involving dangerous activities have been approved and adopted by the Federal Service for Environmental, Technological and Nuclear Supervision (Rostechnadzor).

A new trend over the reporting period was the attraction of highly qualified specialists in various fields from the global gold mining industry, with the aim of implementing international experience and best practices at the Company's operations. One of the goals here is to develop training programmes for employees where international experts share their knowledge, skills and development vision.

3.6.3. Life at Polyus

As it operates in remote locations and in harsh climates, the Company acknowledges its responsibility to provide decent working, social and living conditions for its employees and strives each year to improve them in accordance with Company's Social Standard.

Among others, the Company provides financial assistance to employees in the following circumstances:

- Paying for the expenses for employees and their families to travel to their workplaces on appointment, and for holiday travel expenses;
- providing free or subsidised meals for employees;
- organising corporate and sporting events;
- providing treatment for employees at health and rehabilitation centers and other medical institutions;
- compensating employees for expenses related to their children's stay at health camps located in Russia;
- making one-off payments for special occasions, (e.g. marriages and births);
- retirement benefits; and
- financial assistance to relatives of deceased employees, including financing the education of children of deceased employees at higher and secondary vocational institutions.

PGIL aims to provide comfortable accommodation, healthy meals and various recreational activities for its employees, such as libraries, gyms, cable TV and Wi-Fi.

One of the most important priorities of the Company's social policy is to promote healthy living and to encourage workers to take part in regular exercise and sports.

In summer 2013, the 1st Corporate sports festival was held under the motto: "Fair play – a flawless victory", bringing together 10 teams – a total of 150 participants – from all BUs and students from four Krasnoyarsk educational institutions.

3.6.4. Attracting employees

One of the major objectives for PGIL HR management is to attract and retain talented employees and to promote its HR brand (the profile of the Company in the labour market). In considering its policy the Company takes into account the following human resource issues:

- Recognition of the importance of human capital to the Company's success;
- The overall demographic situation in Siberia and Russia's Far East;
- The economic impact of job creation in these regions;
- The existence of development projects requiring continual recruitment;
- Corporate risk assessment procedures (see Section 3.1.1).

To address the topic properly, two focus group surveys were conducted. As a result, two issues impeding recruitment and retention of a talented workforce were identified:

- the Company's low visibility in the labour market, and
- concerns about duration of the rotation-based work (months on/months off).

The decision was made to unify the Group's hiring processes and procedures and a number of measures were developed to this end:

- The PGIL careers website (http://rabota.polyusgold.com/ in Russian), launched at the end of 2012, gained popularity throughout the reporting year, with an average of 500-700 visitors daily. It provides information on career opportunities for both young specialists and experienced professionals, giving an overview of the Company's operations and student programmes, covering corporate news and events and allowing people to apply for jobs directly through the site. It also touches upon the working and living conditions at the Company's mining sites (see Section 6.3 of the Sustainability Report) and the characteristics of rotation-based work.

- A communications strategy was developed.
- The Group profile is being updated with the aim of presenting the Group as a whole and forming a positive image among potential employees, and to unify and simplify the job application process.
- In 2013, preparations were made for the establishment of a corporate careers centre, which is to become fully operational in 2014.
- The HR department began monitoring careers websites and feedback about the Polyus Group in order to identify and remedy flaws.
- A list of recommended recruitment services providers was compiled, helping BUs to make more informed decisions when choosing partners.
- Outsourcing schemes were successfully implemented in the Construction Service and might be spread to other operations. They are useful when production tasks require large numbers of short-term employees. The Company works closely with educational institutions specialising in metals and mining studies to ensure a constant

flow of properly qualified young specialists who are keen to work for the Company. For further information, please see the Communities Section.

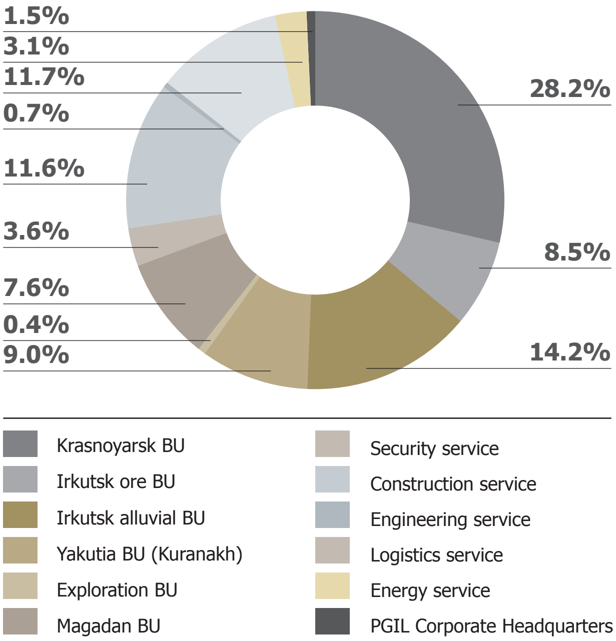
On November 29, the Government of the Magadan region held a ceremony to present the awards for the competition to find the "Best employer implementing a youth mentoring system in the Magadan region in 2013". The Company's Magadan BU scooped the award and additionally Olga Litvinova, Deputy Director General for Personnel, was awarded an honorary diploma.

The competition is designed to develop the labour potential of the Magadan region by increasing the competitiveness and occupational mobility of young people in the labour market.

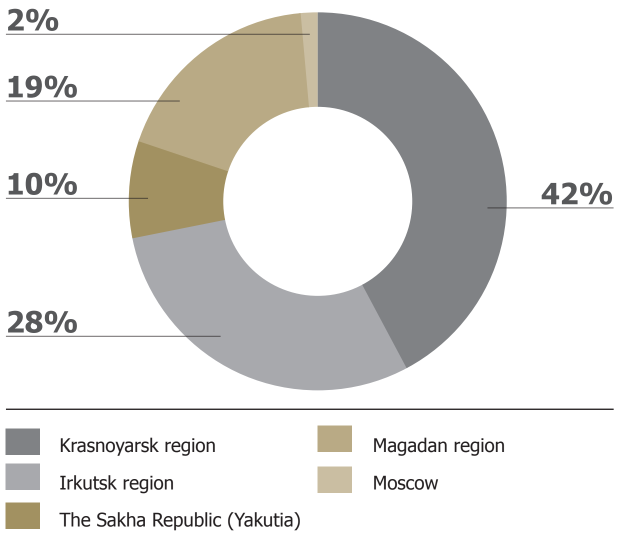
Next year, the PGIL HR department plans to continue improvements across the key areas identified. The recruitment policy will remain the focal point of all HR activities. All other measures, including developing a grading system and KPIs, as well as improving social and living conditions, are required to support the major aim of promoting the Company's brand in the labour market and strengthening the Company's most valuable asset – its people.

3.6.5. Performance results

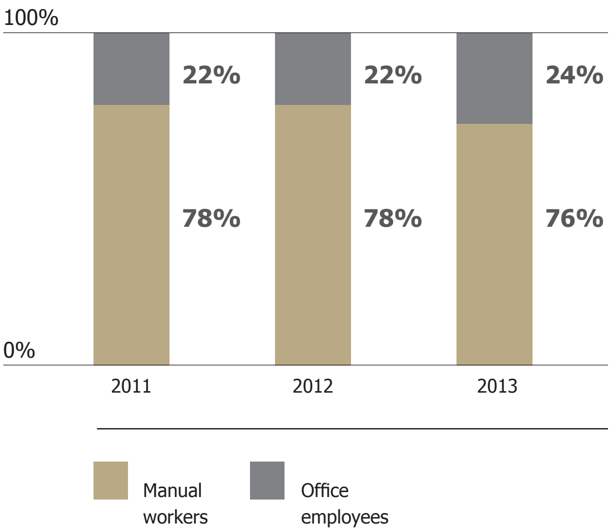
Employees by BU (2013, %)



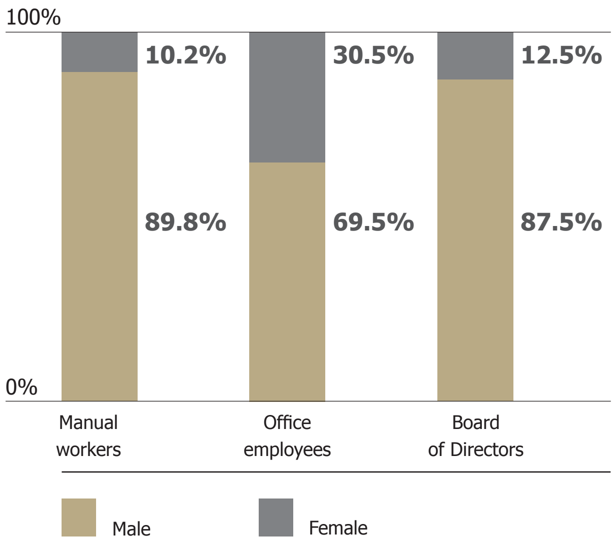
Employees by region (2013, %)



Employees by function (2011–2013, %)



Employees by gender (2013,%)



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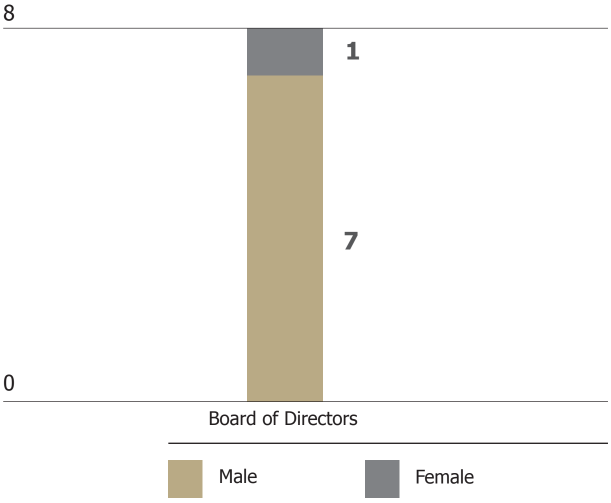
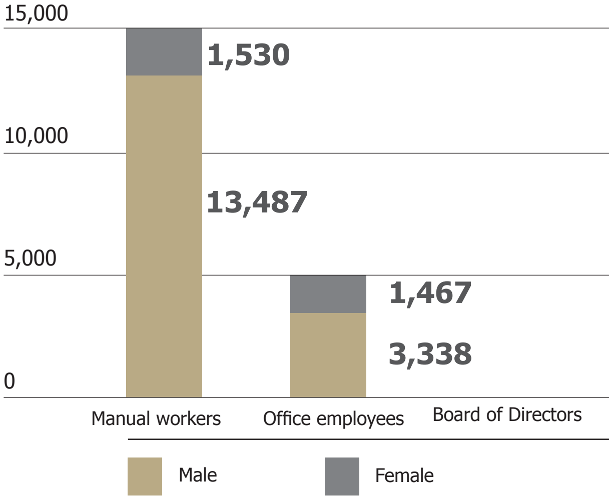
Employees by gender (2013)

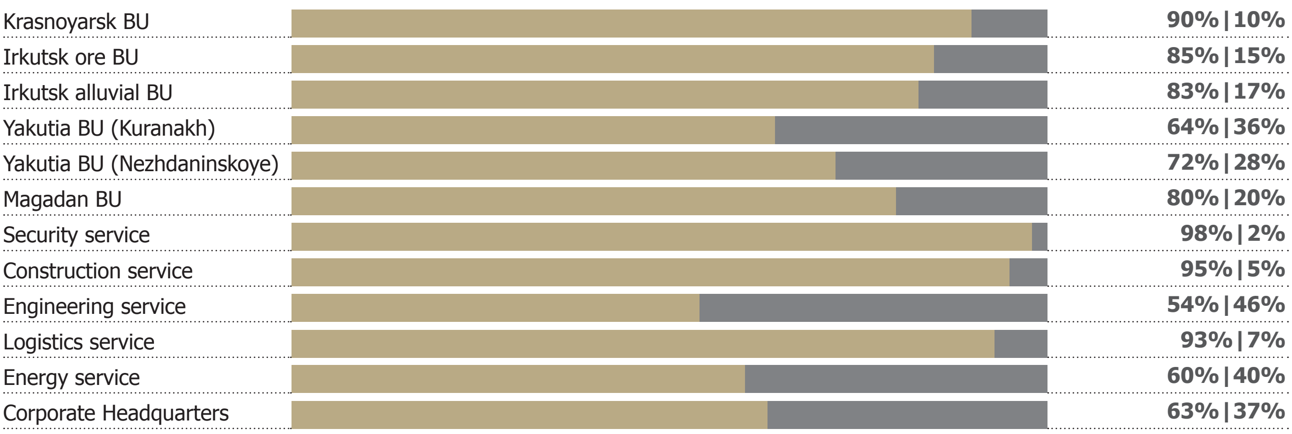


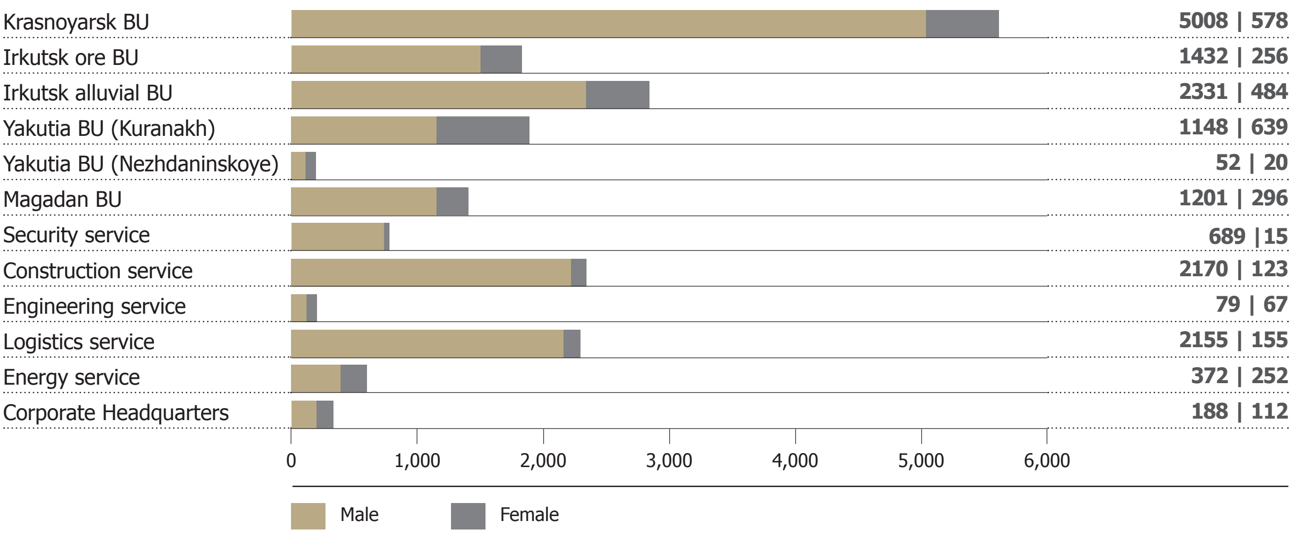
Employees by gender (2013)



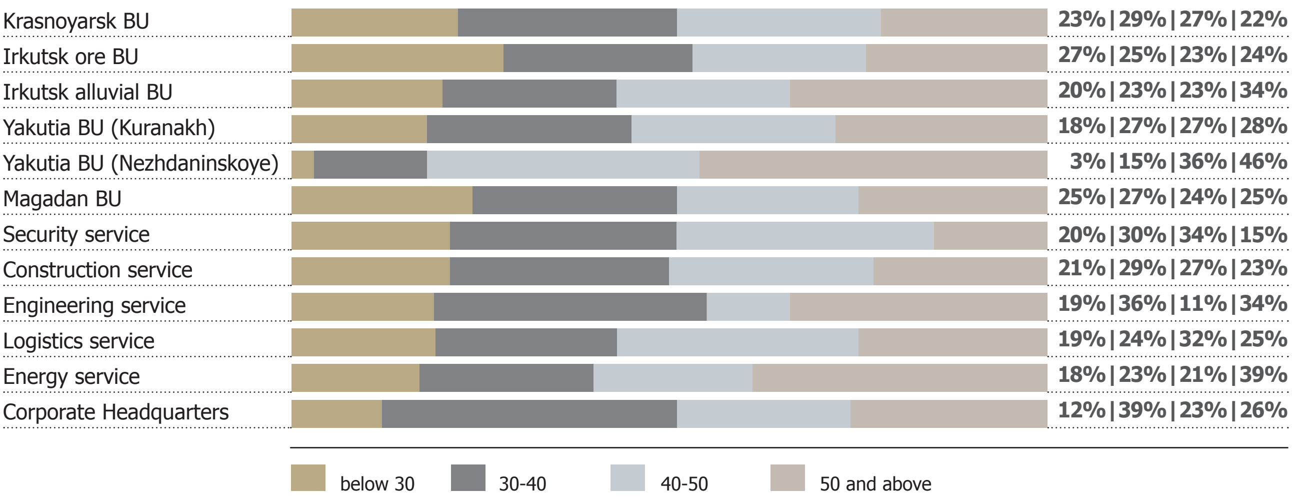
The Company's Board of Directors is comprised of one female and seven male members.

Employees by gender (2013, %). See also Section 2.11

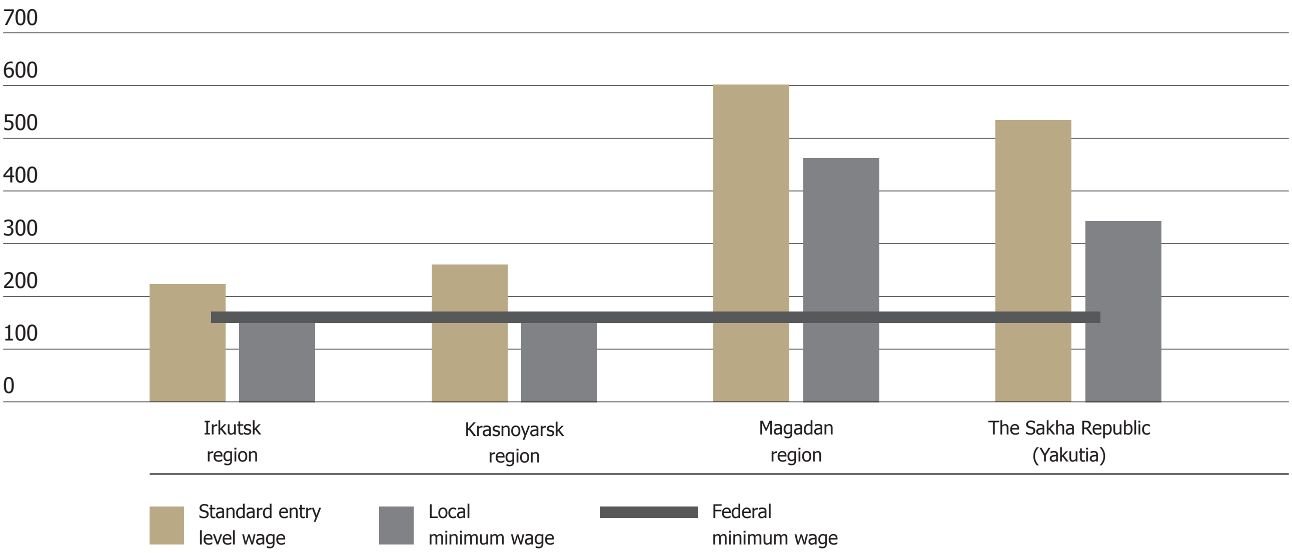




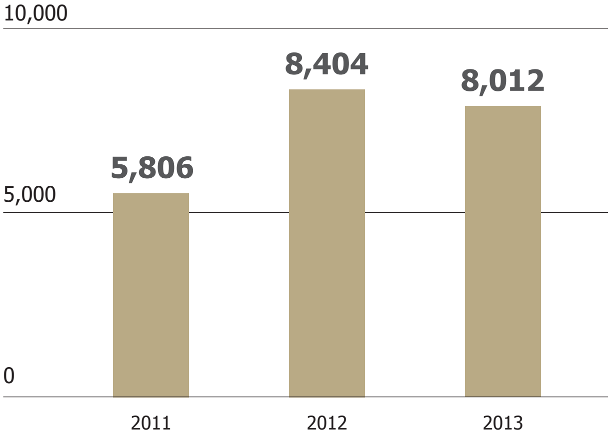
Employees by age group (2013, %)



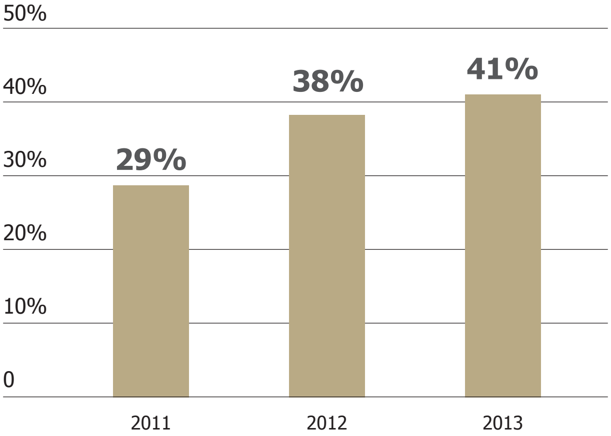
Standard entry wage compared to local minimum wage by BU (2013, USD)



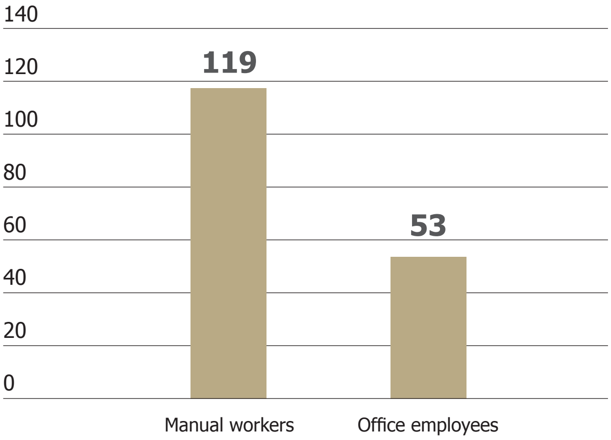
Number of employees trained (2011–2013)



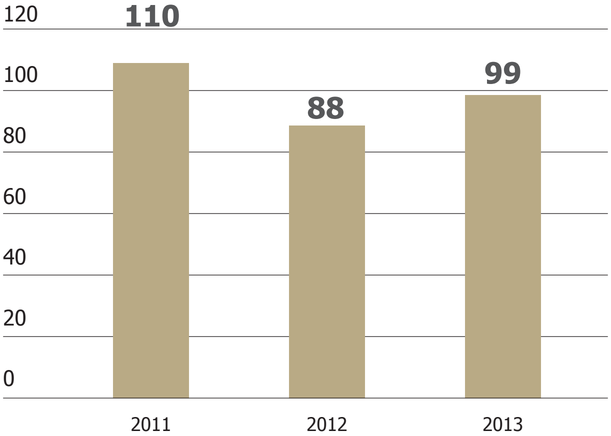
Employees trained, as percentage of total headcount (2011–2013, %)



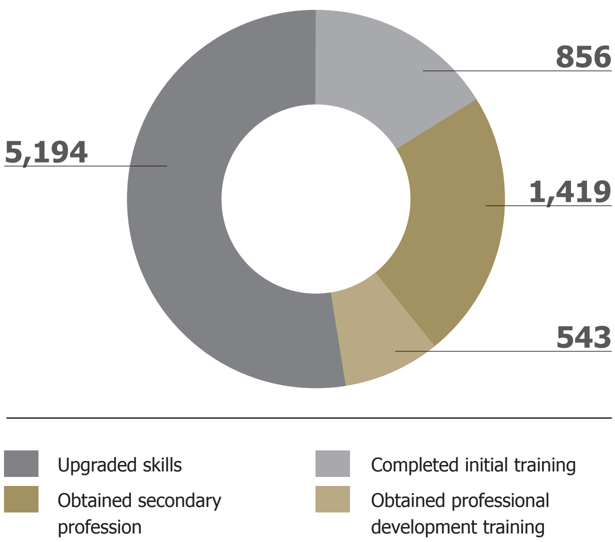
Average number of hours of training per year per employee by employee category (2013)



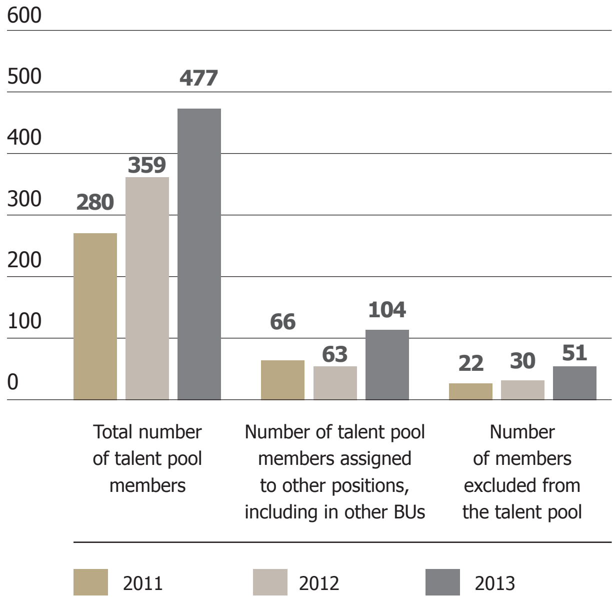
Average number of hours of training per year per employee trained (2011–2013)



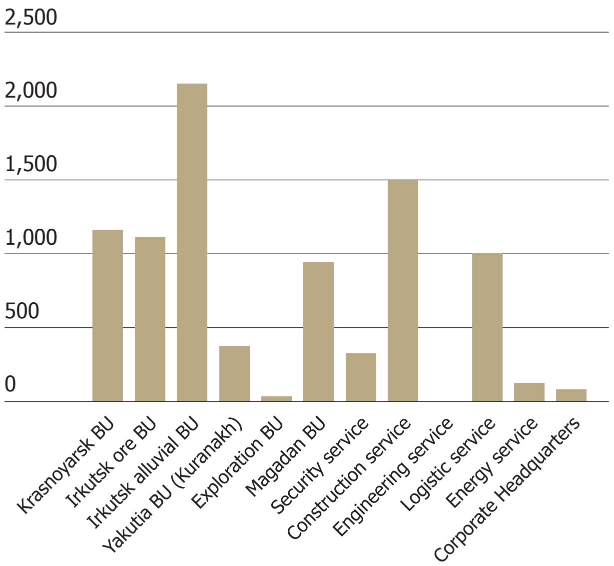
Employees by type of training undertaken (2013)



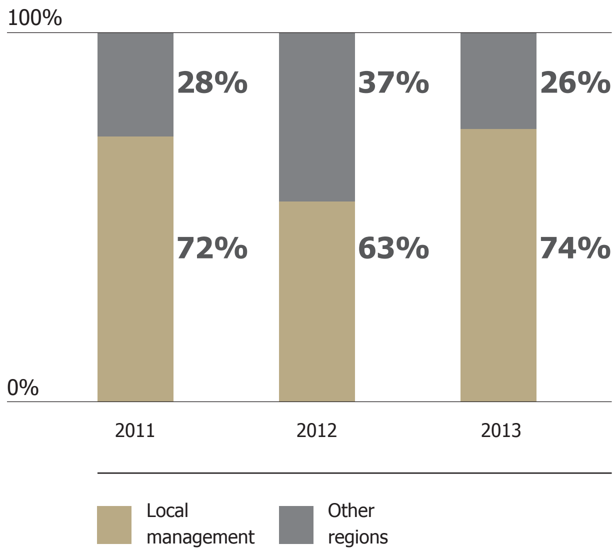
Talent pool (2011–2013)



Employees hired in the reporting period (2013)



Percentage of local management (2011–2013, %)



3.7. Environmental Stewardship

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The Group strives to integrate environmental stewardship into every activity.

This commitment to efficient resource usage and environmental protection is a competitive advantage for the Company, helping us to reduce our environmental impact and decrease operating costs, thus delivering higher returns to our shareholders.

3.7.1. Key targets

Target	Status	Plans
Development of closure plans for all mines in accordance with Russian legislation and ICMM guidelines. Audit of mine closure plans for currently operational Group mines.	In progress. Closure plans for several mines (Verninskoye, Olimpiada, Blagodatnoye, Titimuhta, Natalka and Kuranakh) were reviewed and updated. SRK Consulting was engaged to conduct an audit and adjustment of Conceptual Closure Plans (in compliance with ICMM principles and Russian law).	To be continued in 2014.
Development of an Environmental Management System (EMS) for Group subsidiaries.	In progress. EMS implemented at Olimpiada and Kuranakh mine sites.	To be continued in 2014. Develop and implement EMS for all operational Polyus Gold BUs.
Development of water management and water balance plans for the Olimpiada and Verninskoye mines.	A water balance and water management plan for Natalka project was developed and is to be updated in 2014.	Develop similar water management plans for the Olimpiada and Verninskoye mines in 2014–2015.
Preparation of an Environmental and Social Impact Assessment (ESIA) report for new projects.	In 2012, the ESIA report for Natalka, was completed and is in compliance with International Finance Corporation standards. In 2013 the Environmental and Social Action Plan (based on ESIA study) and an environmental monitoring programme are being implemented. In 2013, the ESIA report for Nezhdaninskoye was completed.	In 2014, the Group will continue to implement and monitor the Natalka Action Plan. An ESIA report for Chertovo Koryto will be produced.
Environmental accident and emergency reporting.	In progress. A corporate environmental accident reporting standard including a root-cause analysis procedure was developed.	This standard for environmental accident reporting will be introduced at all Polyus Gold operating BUs.

3.7.2. Approach and highlights of 2013

Environmental protection and conservation is one of the Group's most important activities. The Group focuses on those aspects of its operations which have the most impact on the environment. The Company identifies and prioritises issues affecting its business and stakeholders, taking into consideration environmental, social and economic parameters.

Development of a cyanide management system is one of the Company's top priorities. An effective system will ensure controls are put in place on each phase of the cyanide management cycle: purchasing, transportation, operation and detox. A new cyanide tailings INCO detox plant is being commissioned and will begin operating in early 2014 at the Olimpiada mine. This process will be more efficient than the standard methods of neutralisation.

The Group recognises the scale of the problems posed by increasing demand for reliable and secure power supply along with the need to decrease GHG emissions. Accordingly, the mitigation of GHG emissions is one the Group's of the key long-term environmental challenges.

One of the key objectives for PGIL in 2014 will be to develop a Greenhouse Gas Policy which will set our framework for managing and reporting on GHG emissions in line with international best practice.

A water balance assessment was conducted at our Magadan BU in 2012 and a similar assessment is currently planning to be undertaken at other BUs. Leading technical consultants have been engaged to develop innovative solutions to maximise capture and reuse of contact water.

Water treatment facilities are being designed at the two Group's sites: Verninskoye and Olimpiada. These projects will make it possible to increase the percentage of reclaimed water at the mine site.

In the reporting period, the Company, in collaboration with SRK consultants and other environmental and engineering professionals, launched environmental programmes focusing on ARDML (Acid Rock Drainage and Metal Leaching) studies. In these studies, the chemical interactions between water and waste rock, low grade ore, tailings are being assessed, in order to develop and introduce measures to prevent and minimise negative impact on the environment.

Conceptual life of mine closure plans were developed for all operating sites. The plans developed in 2012 were reviewed and modified as necessary. The aim of the closure plans is to estimate potential costs for the rehabilitation and reclamation of the mine site by the end of life of the mine. These plans fully comply with Russian law and ICMM principles.

The Group continues to organise ongoing training for personnel responsible for environmental protection in accordance with environmental legislation. This helps the Company maintain a high level of awareness of regulatory requirements and respond to them promptly.

Achieving compliance with ICMM principles on environmental policies, standards and performance indicators remains a key target for the Company. An audit was performed by the environmental consultancy ERM, in order to identify areas for improvement with the aim of full compliance with the ICMM requirements. In 2014–2015, the Group aims to focus on the gaps identified and to achieve full compliance with ICMM requirements.

The Company continues to sharpen its focus on environmental management in its projects and operations. With this in mind, the Company is introducing an integrated management system based on ISO 14001 and OHSAS 18001 requirements that embraces a comprehensive approach to efficient environmental and health and safety management.

The Group believes that timely reporting helps to manage environmental performance. Accordingly it is working on the implementation of the corporate environmental incident reporting standard, to be incorporated in all BUs.

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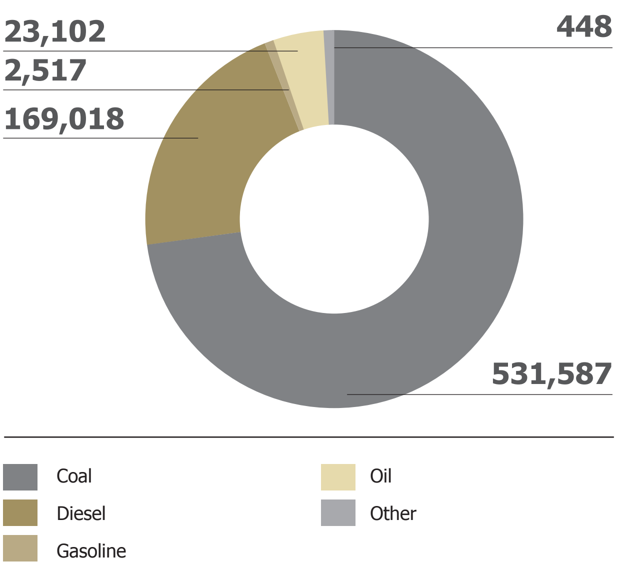
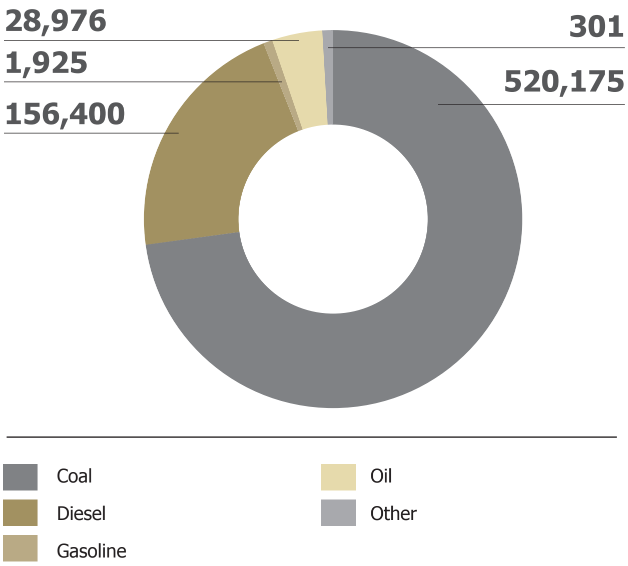
3.7.3. Performance results

Energy

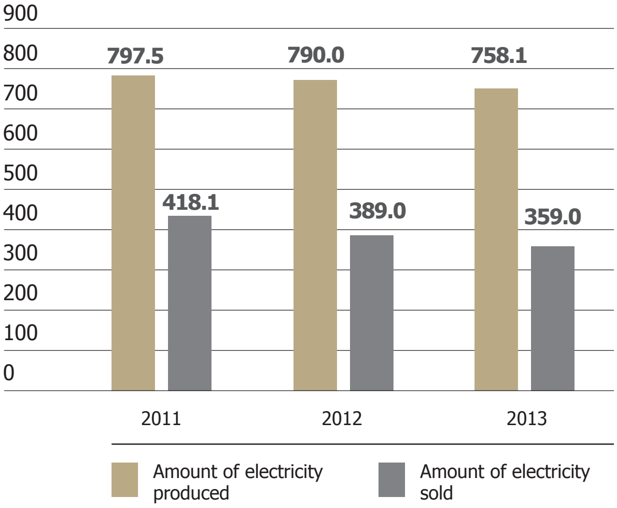
Purchase of primary energy resources in 2013, tonnes



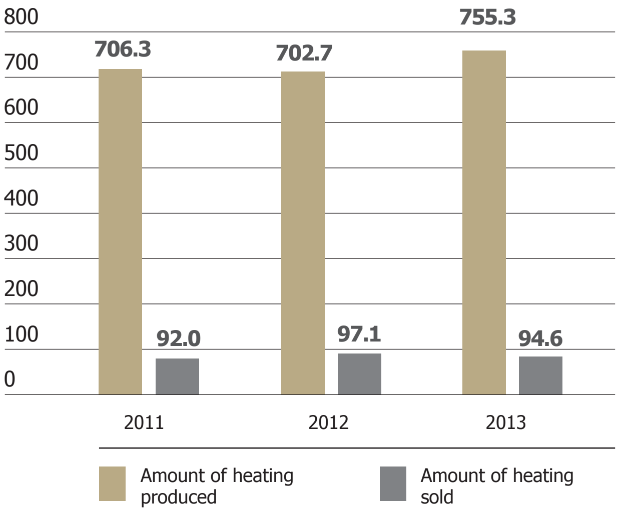
Consumption of primary energy sources in 2013, tonnes



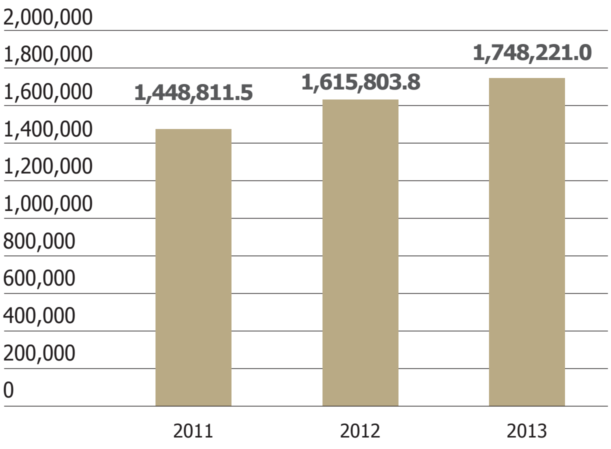
Amount of electricity produced and sold 2011–2013, million kWh



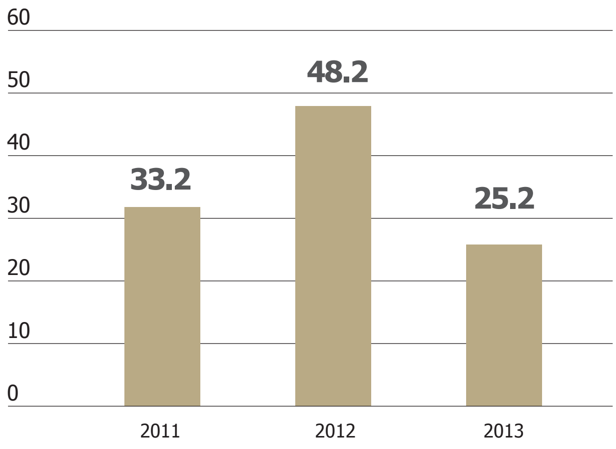
Water for central heating, 2011–2013, thousand Gcal



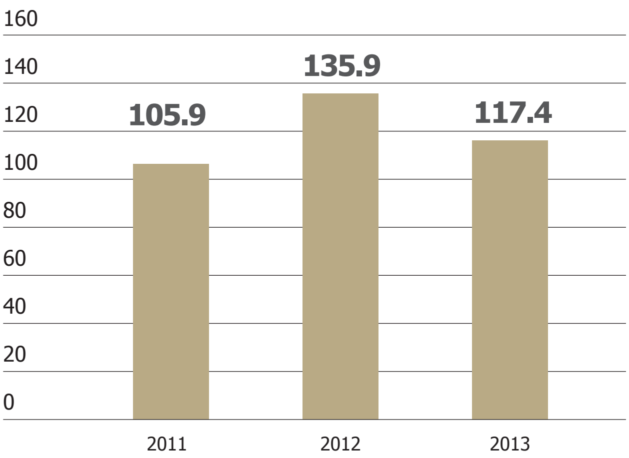
Amount of electricity, purchased, 2011–2013, thousand kWh



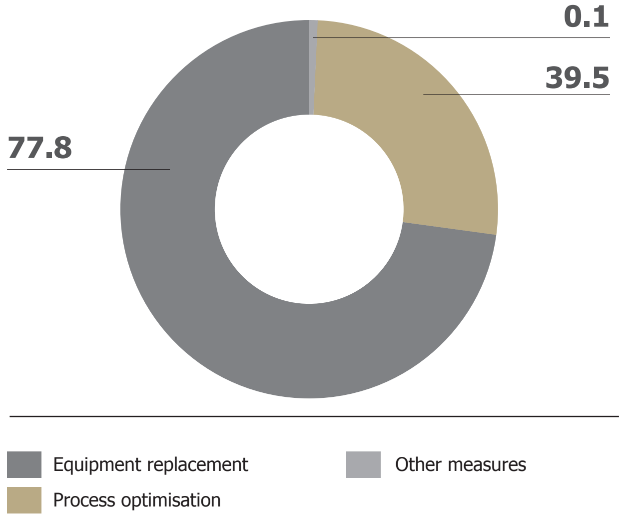
Water for central heating, purchased, 2011–2013, thousand Gcal



Total energy saved due to conservation and efficiency improvements in 2011–2013, kWh per unit

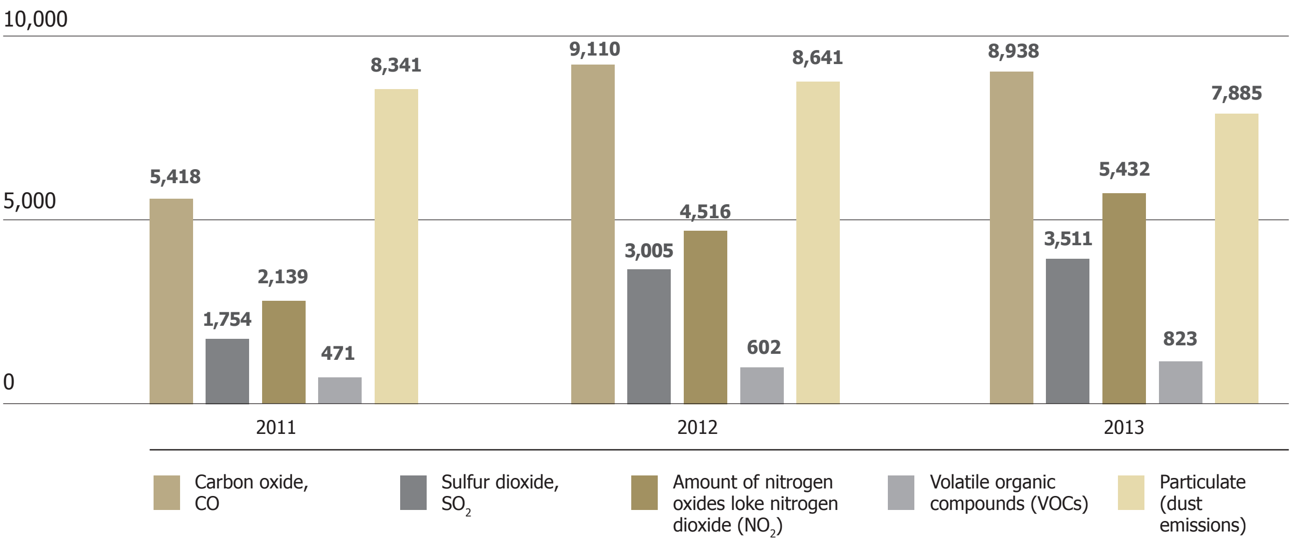


Energy saved under the conservation and energy efficiency programme in 2013, kWh per unit

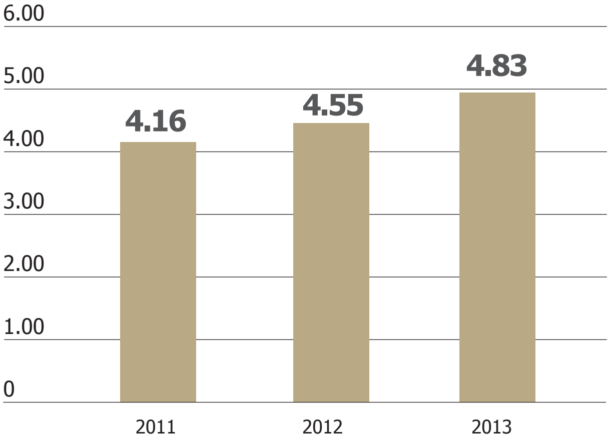


Air emissions and climate change

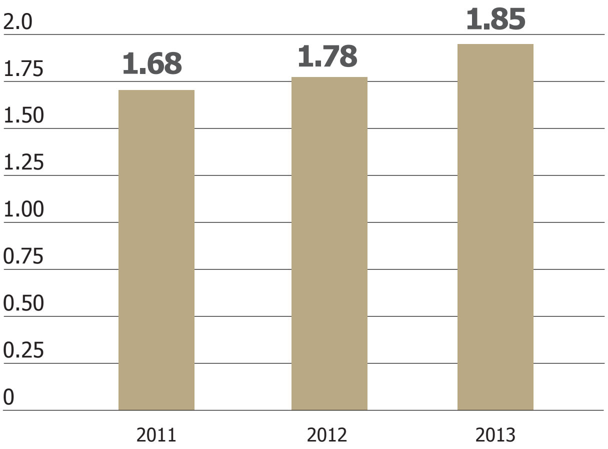
Significant air emissions, 2011–2013, tonnes



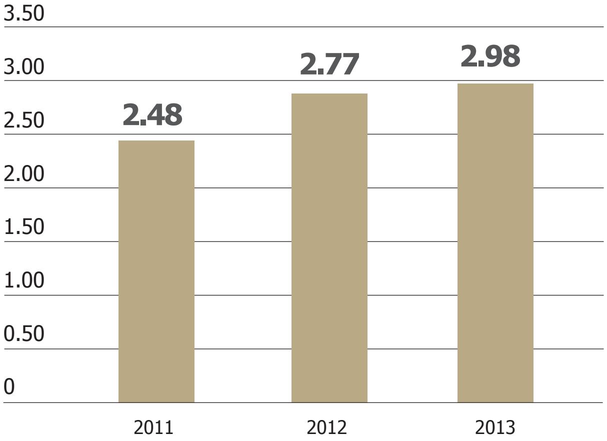
Total GHG emissions (CO_2-e), 2011–2013, million tonnes



Direct GHG emissions (CO_2-e), 2011–2013, million tonnes

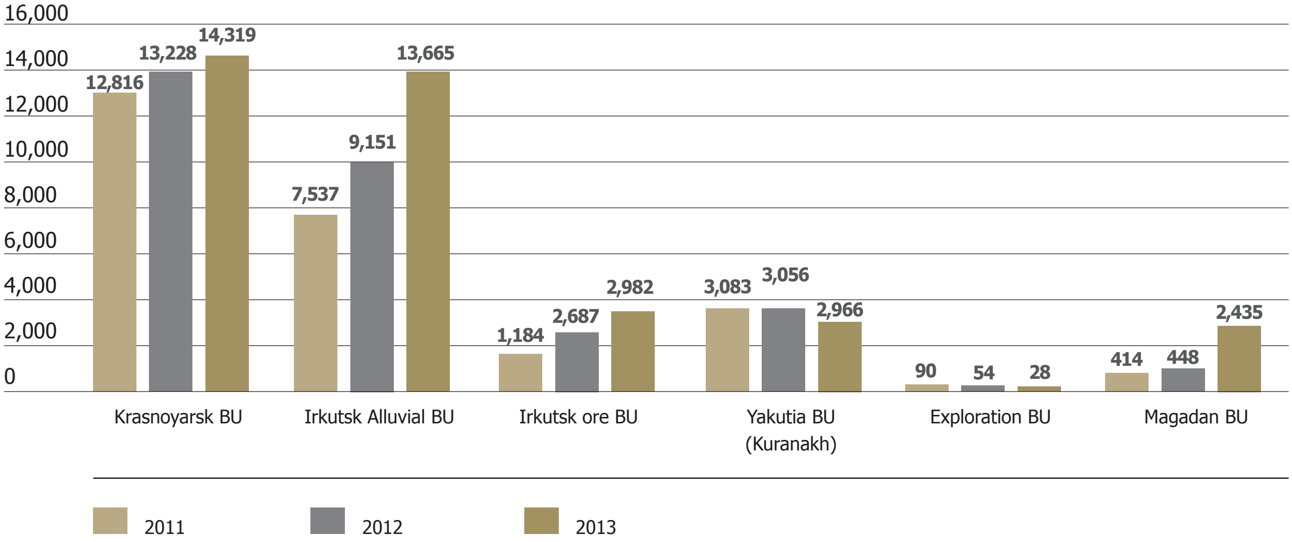


Indirect GHG emissions (CO_2-e), 2011–2013, million tonnes

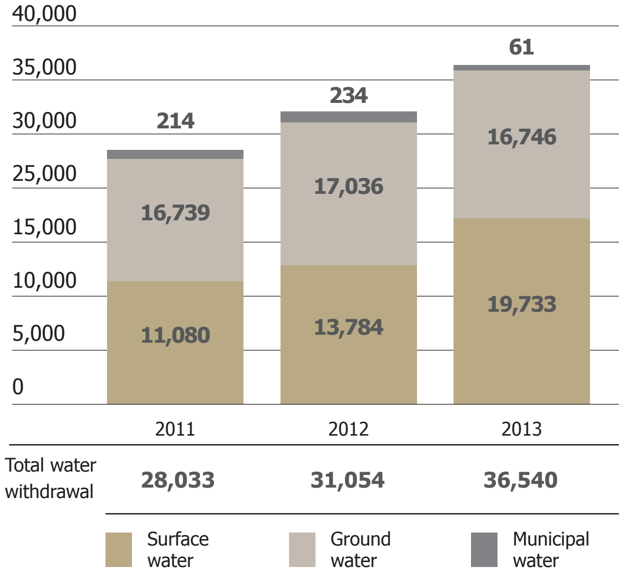


Water

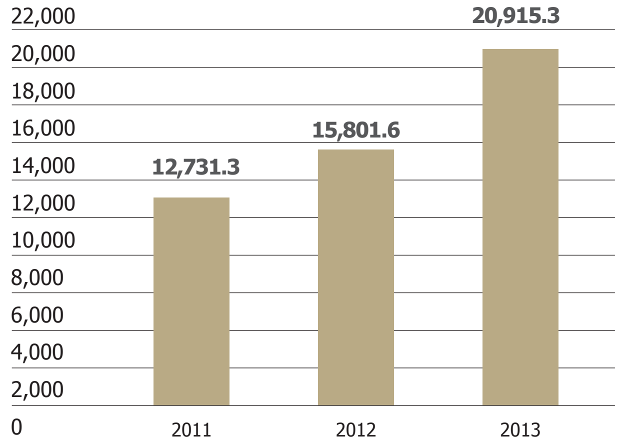
Total water withdrawal in 2011–2013, thousand cubic metres



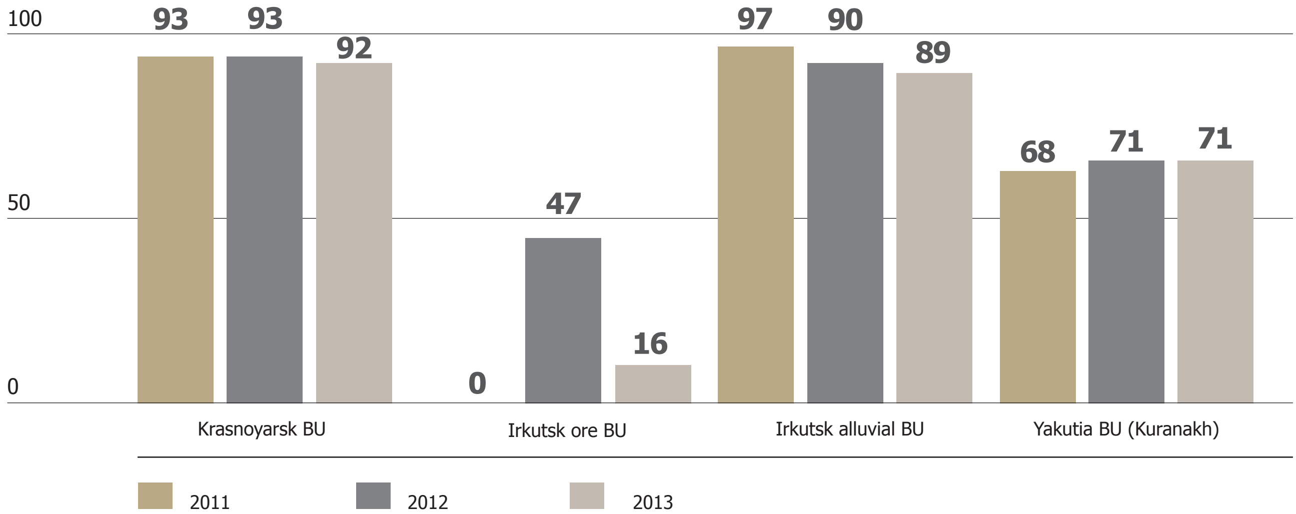
Total water withdrawal by source, 2011–2013, thousand cubic metres



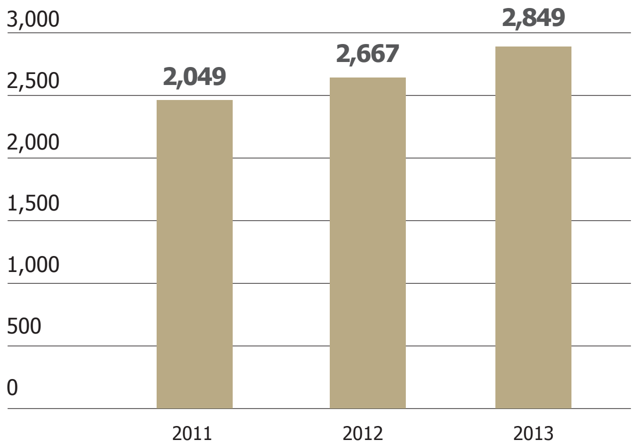
Total volume of water discharged, thousand cubic metres, 2011–2013



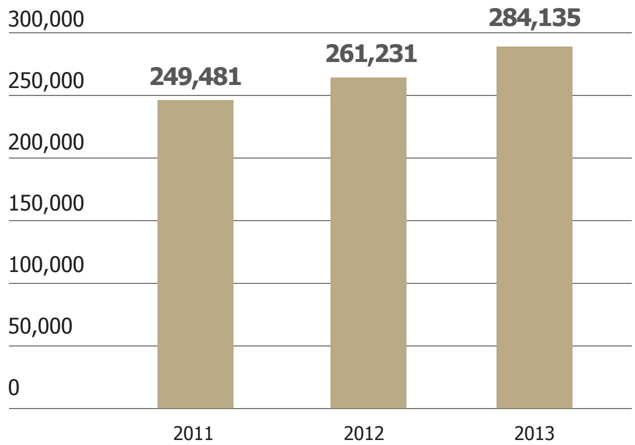
Percentage of water recycled/reused, 2011–2013



Total water effluents discharged, tonnes, 2011–2013

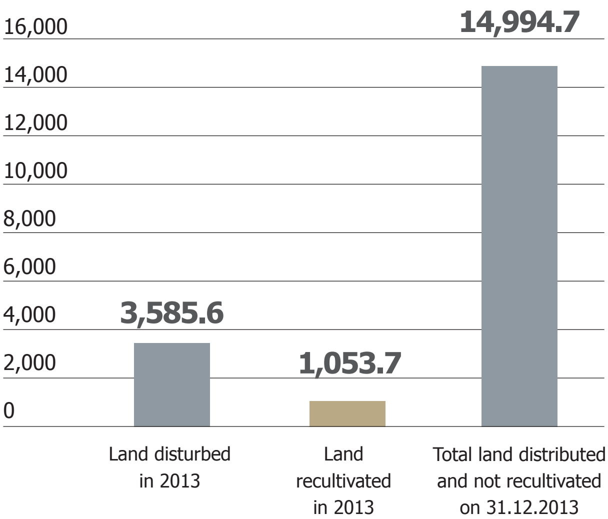


Total volume of water recycled/reused, thousand cubic metres, 2011–2013



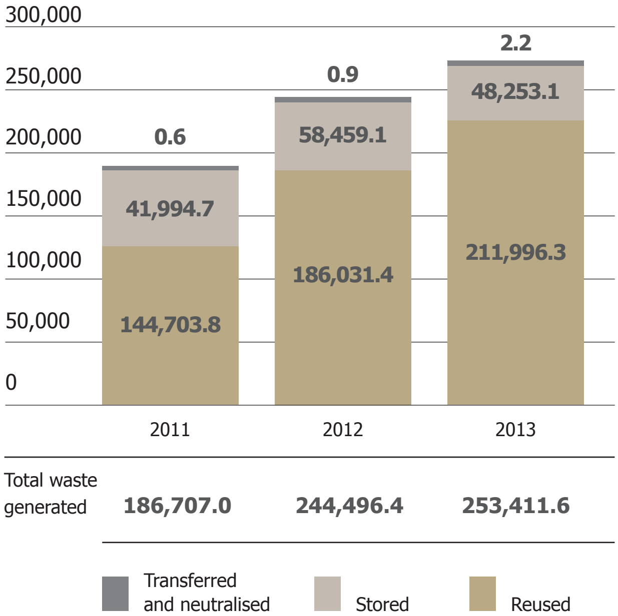
Land resources and biodiversity

Total land disturbed and recultivated in 2013, hectares

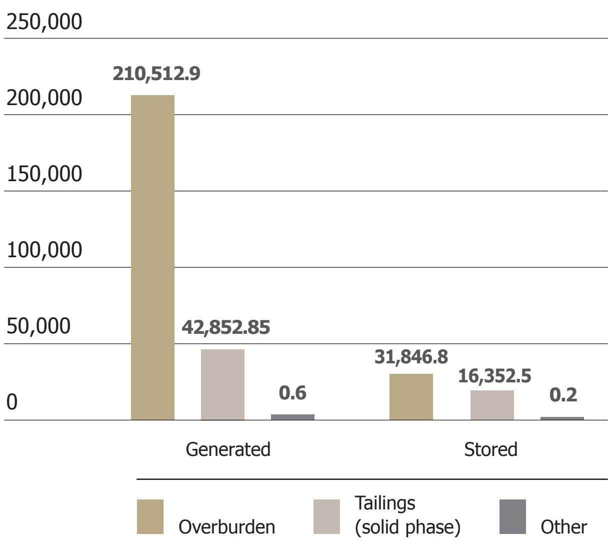


Waste

Total waste in 2011–2013, thousand tonnes



Waste generated in 2013, thousand tonnes



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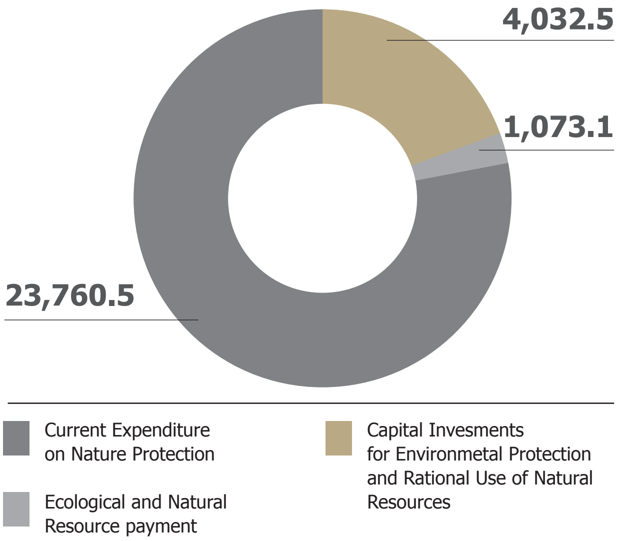
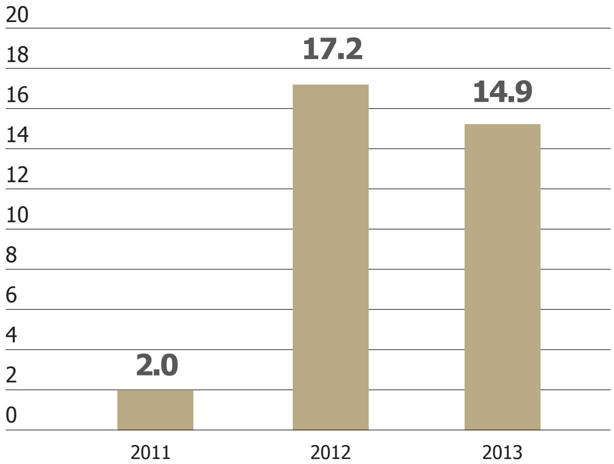
Environmental protection expenditures

Total environmental protection expenditures in 2013, USD thousand

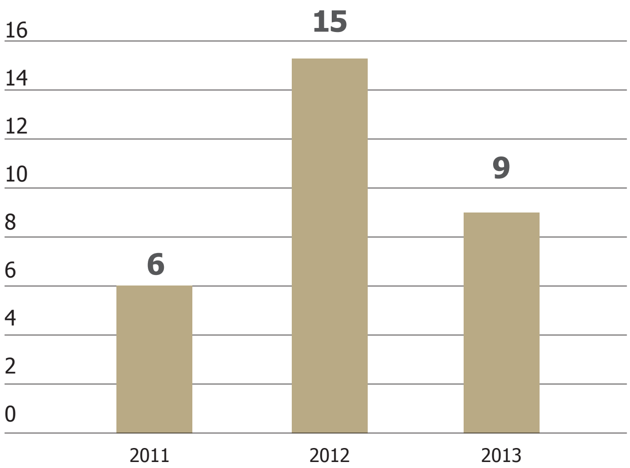


Total environmental expenditures in 2013 = 28,866.2

Total monetary value of the fines in 2011–2013, USD thousand



Number of sanctions for non-compliance with environmental laws and regulations in 2011–2013



3.8. Communities

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In order to further develop the strong ties that PGIL has with its stakeholders, the Company proactively builds relationships with people and communities affected by its activities.

Target	Status	Plans for 2014
Workshops on Community Development Plans (CDPs)	**In progress** BU CDP's were discussed with BU personnel and their comments were incorporated into the reports.	Conduct workshops.
Position of community relations (CR) manager to be introduced at Natalka and subsequently at all Group subsidiaries	**In progress** Sustainability and community manager appointed at Natalka.	Introduce CR manager position at other operations.
Implement Stakeholder Engagement and CDP Corporate Policy	**In progress** Stakeholder Engagement Policy and Human Rights Policy developed and approved by Board of Directors.	Community Development Policy to be developed.
Achieve compliance with ICMM principles on stakeholder engagement procedures and social performance indicators	**In progress** Stakeholder Engagement Policy developed.	Implementation of Stakeholder Engagement Policy. Enhancement of stakeholder engagement practices.

3.8.1. Approach

Polyus Gold strives to establish relationships with individuals and legal entities at a local and national level, to create new projects, to expand the scope of cooperation and to use more efficient approaches to achieving the social and economic goals of the Company and society.

Most Polyus Gold operations are located in rural and remote areas. The Company, therefore, interacts with a broad spectrum of local and indigenous communities with a range of interests and concerns. Specifically, Polyus Gold engages with local and indigenous communities through:

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

A core component of the Polyus Gold commitment to sustainability is contribution to the socio-economic development of the areas and local communities where it operates.

In the reporting year, the majority of charity and community development functions, with the exception of cooperation with educational institutions, were handed over to the Government relations Department. The PR Department manage sponsorship projects. The basis for the Company's charitable and community relations activities in its regions of operation is laid down in agreements on socio-economic cooperation with local authorities. This framework has been in place since 2009. The Company plans for the format of such agreements to be unified across all regions in 2014. Each agreement specifies the aims and targets of cooperation, and an action plan is drafted every year. All requests and proposals that are submitted to the Company's BUs are assessed against a set of criteria:

- their compliance with the agreements with local authorities;
- the extent of their beneficial effect on the region; and
- their urgency and importance.

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In 2013, no major projects were planned and executed. However, the Company continued its charitable activity, focusing on the following fields:

- Science and education;
- Physical culture and sports;
- Social support and protection of the public; and
- Support for the local population in emergency situations.

For example, the Company took an active part in the clear-up work following floods in the Magadan region.

The following student programmes are available for university students and students of institutes of basic and secondary vocational education.

Learn the worth of gold

"Learn the worth of gold!", a programme of collaboration with professional educational institutions, was launched by PGIL in 2008. Since then, nearly 2,000 students have participated, about 20% of whom have go on to join the Company. The programme focuses attracting, and selecting young engineers and technical workers and developing their professional skills. "Learn the worth of gold!" aims to reduce the time needed for them to become established in their career.

The programme is open to senior students of universities and institutes of basic and secondary education specialising in fields that are in demand at the Company. Today, the programme is being implemented in more than 40 universities and vocational training institutes nationwide.

Under the programme students are offered an internship at the Company after graduation. Following on-the-job training, the Company, the student and an educational institution may agree on specialised training and the student's future employment at the Group.

During the internship, experienced mentors help the students master the intricacies of the profession and adapt to working life.
"Learn the worth of gold!" provides students with an opportunity to:

- acquire great professional experience;
- obtain materials needed for coursework or research; and
- get a job at the Company after graduation.

James Nieuwenhuys at a meeting with students from the Moscow Institute of Steel and Alloys.

During the meeting, James told the students about trends in the gold mining industry, PGIL's position in the global gold industry, and the current state and prospects of the Company.

3.8.2. Students

As part of its focus on attracting young people with initiative and the capability to think innovatively the Company pays special attention to engagement with educational institutions and students. The Company provides students with an opportunity to learn about global best practice in the mining industry, to demonstrate their talents and abilities, and to become part of large-scale projects.

PGIL works closely with a number of educational institutions specialising in metallurgy and mining studies, including the Siberian Federal University, the Siberian State Industrial University, the Ural State Mining University, the Far Eastern Federal University and others (for a full list, see http://rabota.polyusgold.com/dlya-studentov-i-vypusknikov/programma/ in Russian). In 2013, an agreement was signed with Siberian Federal University, boosting cooperation in the fields of education, employment and careers, research and development, and information technology. The agreement involves a number of joint activities aimed at providing a competitive level of graduate training.

In 2013, the Company conducted student opinion surveys, and designed eye-catching and innovative corporate information stands and placed them in universities and vocational training institutions.

The Polyus Gold-CAF Grant Competition

The goal of this programme is to identify and support the best students and student initiatives, and to apply their abilities and potential to projects aimed at tackling social issues in the cities where the programme takes place.

The programme includes two competitions.

Student projects

The purpose of this contest is to identify and support the best student projects in the social sphere. The best projects receive grants of up to USD 3,000 per project.

The students take part in the competition's role-playing, training and seminars, where they learn to develop, present and implement their own social projects.

Individual achievements

The purpose of this contest is to reward those students who are the most active and show the most initiative. Those who earn the most points for their projects and personal achievements in the calendar year receive prizes of between USD 250 and 500.

The competition categories are:

- Participation in university life;
- Professional and personal growth;
- Participation in public life; and
- Art and sport.

The programme is growing every year with the involvement of new educational institutions.

A workshop and conference: 'Improving the quality of training given to young professionals in the mining industry:

The perspective from business and educational institutions' was held in April 2013 as part of the 'Learn the worth of gold!' programme.

This conference was attended by leaders and specialists from the Company and representatives of leading Russian educational institutions. The conference discussed issues related to the reform of vocational education, young professionals' expectations of their future employer and the measures necessary to improve the quality of graduates and help them adapt more quickly to the working environment.

In October 2013, the Student Initiatives programme was launched, with more than 400 students from educational institutions specialising in metallurgy and mining studies participating.

The main event of the first stage was trip to the three participating cities (Chita, Irkutsk and Novokuznetsk) where the participants met with 15 municipal organisations working for the benefit of young people, in various areas: youth affairs committees, environmental and children's organisations, the city's museums and libraries, youth business incubators, extreme sports communities.

3.9. GRI content index

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"In Accordance" Criteria – Comprehensive General standard Disclosures

SR2012 – Sustainability report 2012.

Indicators		Location of disclosure / Comment	External Assurance/Page
Strategy and Analysis			
G4-1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy.	Message from COO, 64 Chairman's statement, 14	
G4-2	Description of key impacts, risks, and opportunities.	Sustainability approach, 58 Message from COO, 64 Sustainability governance, 65 Health and Safety, 67 Employees, 70 Environmental Stewardship, 78 Communities, 84 Principal risks and uncertainties, 20 Risk Committee report, 142	
Organisational Profile			
G4-3	Name of the organisation.	About this Report, 56	
G4-4	Primary brands, products, and/or services.	Polyus at a glance, 6	
G4-5	Location of organisation's headquarters.	The Company is headquartered in London, United Kingdom.	
G4-6	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	About this Report, 56	
G4-7	Nature of ownership and legal form.	Polyus at a glance, 6	
G4-8	Markets served.	Polyus at a glance, 6	
G4-9	Scale of the reporting organisation.	About this Report, 56 Employees, 70 Polyus at a glance, 6 Financial review, 26 Ownership structure: www.polyusgold.com/investors/shares/ownership_structure/ In 2013 the average headcount of the Group was 19,452 employees.	

Indicators		Location of disclosure / Comment	External Assurance/Page
G4-10	Total workforce by employment type, employment contract, and region, broken down by gender.	Employees, 70	✓ 62-63
G4-11	Percentage of employees covered by collective bargaining agreements.	94% of employees are covered by collective bargaining agreements.	
G4-12	The organisation's supply chain.	Sustainability approach, 58	
G4-13	Significant changes during the reporting period regarding size, structure, or ownership.	About this Report, 56	
Commitments to External Initiatives			
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	In the reporting period the Company did not apply the precautionary principle to identify, monitor and manage risks.	
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	About this Report, 56	
G4-16	Memberships of associations (such as industry associations) and/or national/international advocacy organisations.	Sustainability approach, 58	
Identified Material Aspects and Boundaries			
G4-17	Entities included in the organisation's consolidated financial statements or equivalent documents.	About this Report, 56	✓ Independent auditor's report (pages 152–157).
G4-18	The process for defining the report content and the Aspect Boundaries.	About this Report, 56–58	
G4-19	Material Aspects identified in the process for defining report content.	Sustainability Approach, 58–59	
G4-20	Materials Aspects' Boundary within the organisation.	About this report, 56–57 Sustainability Approach, 58	
G4-21	Materials Aspects' Boundary outside the organisation.	About this report, 56–57 Sustainability Approach, 58	
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	About this Report, 57–58	
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	About this Report, 56–57	

Indicators		Location of disclosure / Comment	External Assurance/Page
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organisation.	Sustainability approach, 60 SR2012: Communities, Stakeholder Engagement, 43.	
G4-25	The basis for identification and selection of stakeholders with whom to engage.	Sustainability approach, 60 SR2012: Communities, Stakeholder Engagement, 43.	
G4-26	The organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	Sustainability approach, 60 SR2012: Communities, Stakeholder Engagement, 43.	✓ 62-63
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	Sustainability approach, 60 SR2012: Communities, Stakeholder Engagement, 43.	
Report Profile			
G4-28	Reporting period for information provided.	About this Report, 56	
G4-29	Date of most recent previous report.	About this Report, 56	
G4-30	Reporting cycle.	About this Report, 56	
G4-31	Contact point for questions regarding the report or its contents.	About this Report, 56	
G4-32	The 'in accordance' option the organisation has chosen and the GRI Content Index for the chosen option.	About this Report, 56	
Assurance			
G4-33	Policy and current practice with regard to seeking external assurance for the report.	About this Report, 56	
Governance			
G4-34	The governance structure of the organisation, including committees of the highest governance body.	Sustainability governance, 65 Governance, 124	

Indicators		Location of disclosure / Comment	External Assurance/Page
G4-35	The process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	Sustainability governance, 65 HSEC Committee report, 146	
G4-36	Whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics.	Sustainability governance, 65	
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics.	Governance, Relations with shareholder, 125 SR2012: Employees, Personnel rights, 26. Employees may inform the Board of Directors' Personnel Committee of violations of the Code of Corporate Ethics .	
G4-38	The composition of the highest governance body and its committees.	Sustainability governance, 65 Governance/Diversity policy, 134	
G4-39	Whether the Chair of the highest governance body is also an executive officer.	Board of Directors composition, 128	
G4-40	The nomination and selection processes for the highest governance body and its committees.	Governance, Nomination Committee Report, 144	
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed.	Code of Corporate Ethics, Relationship agreements: www.polyusgold.com/company/corporate_governance/relationship_agreements/ Lists of affiliated persons: www.polyusgold.com/investors/ojsc_polyus_gold/lists_of_affiliated_persons/	
G4-42	The role of senior executives and the highest governance body in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	HSEC Committee report, 146	
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	HSEC Committee report, 146	
G4-44	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Governance/Evaluation, 125 HSEC Committee report, 146	

Indicators		Location of disclosure / Comment	External Assurance/Page
G4-45	The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities.	Sustainability governance, 65 HSEC Committee report, 146	
G4-46	The highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics.	Materiality and Risk Assessment, 58 Risk Committee Report, 142	
G4-47	The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	Sustainability governance, 65 HSEC Committee report, 146 Risk Committee Report, 142	
G4-48	The highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material Aspects are covered.	Sustainability governance, 65 HSEC Committee report, 146	
G4-49	The process for communicating critical concerns to the highest governance body.	Sustainability governance, 65 HSEC Committee Report, 146	
G4-50	The nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	HSEC Committee Report, 146	
G4-51	The remuneration policies for the highest governance body and senior executives.	Directors remuneration report, 198	
G4-52	The process for determining remuneration.	Directors remuneration report, 198	
G4-53	How stakeholders' views are sought and taken into account regarding remuneration.	Directors remuneration report, 198	
G4-54	The ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country.	Directors remuneration report, 198	
G4-55	The ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country.	Directors remuneration report, 198	

Indicators		Location of disclosure / Comment	External Assurance/Page
Ethics and Integrity			
G4-56	The organisation's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics.	Mission, Code of Ethics, Human Rights Policy, Diversity Policy, Stakeholder Engagement Policy. Corporate and social responsibility, 52	
G4-57	The internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organisational integrity, such as helplines or advice lines.	Governance/ Anti-corruption efforts, 137	
G4-58	The internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organisational integrity.	Governance/ Anti-corruption efforts, 137 Grievance mechanism under the Human Rights Policy	

Specific Standard Disclosures
Material Aspects

n/a – not applicable
SR2012 – Sustainability report 2012.

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
Employees				
EC3	Coverage of the organisation's defined benefit plan obligations.	The Company fully complies with Russian laws by paying contributions to the pension fund.		
EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	Employees, 75 The Company does not allow any forms of discrimination, thus all employees, regardless of their gender or any other diversity factors, receive equal wages for the same scope, quantity and quality of labour.		
EC6	Proportion of senior management hired from the local community at significant locations of operation.	Employees, 77		

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	Employees, 77 Turnover remained more or less at the previous year's level and is in line with the rates of other mining companies using the rotational team method.		
LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	SR2012: Employees, Motivation, 28-31. The Company provides the same benefits to all employees, except for additional medical insurance which is not provided to part-time employees.		✓ 62-63
LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	All notice periods regarding significant operational changes are in compliance with the Labour Code of the Russian Federation.		
MM4	Number of strikes and lock-outs exceeding one week's duration, by country	There were no strikes or lock-outs exceeding one week's duration in the reporting period.		
LA9	Average hours of training per year per employee by gender, and by employee category	Employees, 76		✓ 62-63
LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Employees, 77		
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	SR2012: Employees, Motivation, Financial incentives, 28-29. All employees undergo performance reviews on the basis of a KPI system.		
LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Employees, 73 Governance, 124 Governance/Diversity Policy, 134	The Company does not aggregate data on employees by minority group. The Group fully complies with Russian laws and does not allow any forms of discrimination.	✓ 62-63

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	There is no wage discrimination by gender. Remuneration depends on the scope, quantity and quality of labour. Differences in gross wages and salaries can be explained by the structure of employment. Requirements of labour law and specific mining industry conditions, mean that male employees are mostly involved in production. Female employees hold positions in service units (administrative services, medical centres, canteens and others), where salaries are lower than in the main operations.		
HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	In 2013 the Company adopted the Human Right Policy that outlines Polyus Gold's commitment to universal human rights. All employees are familiarized with the Policy and are responsible for understanding and following it.		
HR3	Total number of incidents of discrimination and corrective actions taken	No incidents of discrimination were registered in 2013. The Company strictly complies with the law and does not permit any form of discrimination.		
HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	All security personnel is guided by the Company's Code of Ethic. Human Rights Policy and duty regulations that stipulate the standards of conduct and respect for human rights.		
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Communitites, 86 SR2012: Environmental Stewardship, Performance results, 33. SR2012: Communities, sponsorship and charity, 45.		✓ 62-63
Health and safety				
LA5	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programmes	The HSEC Committee operating at the Board level is the key body responsible for the health and safety issues in the Company. A separate management–worker health and safety committee also operates at Natalka.	Percentage of total workforce represented in formal joint management. No such data is available within current reporting system.	

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Health and Safety, 67		✓ 62-63
LA7	Workers with high incidence or high risk of diseases related to their occupation	Health and Safety, 67 The Company has no operations in areas with a high risk of serious diseases.		
LA8	Health and safety topics covered in formal agreements with trade unions	The cooperation in the field of H&S with the trade unions is carried out at Yakutia BU (Kuranakh).		
Environment				
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	SR2012: Environmental stewardship, Air emissions and climate change, 39. Natalka ESIA assessed risks for Natalka project due to climate change.		
EN1	Materials used by weight or volume.	Operational review, 42		
EN2	Percentage of materials used that are recycled input materials.	The Company did not assess percentage of recycled input materials used in 2013. The rate of use of such materials is very low.		
EN3	Energy consumption within the organisation	Environmental stewardship, 80		
EN5	Energy intensity	Energy intensity ratio – 0.21. The ratio denominator: ore processed t. Data on energy consumed within the organization was used. Energy types included: fuel, electricity, heating.		
EN6	Reduction of energy consumption	Environmental stewardship, 81		
EN7	Reductions in energy requirements of products and services	n/a		
EN8	Total water withdrawal by source	Environmental stewardship, 82		✓ 62-63
EN10	Percentage and total volume of water recycled and reused	Environmental stewardship, 83		

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
EN15	Direct greenhouse gas (GHG) emissions (scope 1)	Environmental stewardship, 82		
EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2)	Environmental stewardship, 82		
EN18	Greenhouse gas (GHG) emissions intensity	GHG intensity ratio – 73. GHG intensity is measured in thousand tonnes of CO_2-e (page 82) per million cubic metres of rock moved (page 43). GHG emissions included: direct (Scope 1), indirect (Scope 2). Gases included in the calculation: CO_2, NH_4, N_2O.		
EN19	Reduction of greenhouse gas (GHG) emissions	Environmental stewardship, 82		
EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Environmental stewardship, 85		✓ 62-63
MM10	Number and percentage of operations with closure plans	SR2012: Environmental stewardship, Managing biodiversity, 38. Four mines – Olimpiada, Verninskoye, Natalka and Aldan – have closure plans in compliance with the ICMM requirements. Closure plans in accordance with Russian legislation are developed for other mine sites.		
Communities				
EC7	Development and impact of infrastructure investments and services supported	Communities, 86 SR2012: Communities, 45		
EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	The Company has no operations in specially protected nature conservation areas.		
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	The Company has no operations in specially protected nature conservation areas.		

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
EN13	Habitats protected or restored	The Company has no operations in specially protected nature conservation areas. The Company has conducted ESIAs in compliance with IFC standards for newly developed projects.		
MM1	Amount of land (owned or leased, and managed for production activities or extractive use) disturbed or rehabilitated	Environmental stewardship, 84 SR2012: Environmental stewardship, Land resources and biodiversity, 38.		
MM2	The number and percentage of total sites identified as requiring biodiversity management plans according to stated criteria, and the number (percentage) of those sites with plans in place	The Company has no operations in specially protected nature conservation areas. The Company is implementing environmental action plans for managing its impact on biodiversity at the new projects based on independent ESIA's		
EN14	Total number of IUCN red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	A number of bird species included in the Red Book of the Russian Federation and Magadan region dwell near Magadan BU. However all species are migratory and do not nest in the project area.		
EN20	Emissions of ozone-depleting substances (ODS)	No significant emissions of ozone-depleting substances were identified in the reporting period.		
EN21	NOx, SOx, and other significant air emissions	Environmental stewardship, 81		✓ 62-63
EN22	Total water discharge by quality and destination	Environmental stewardship, 83 Discharges are not reused by other organisations.		
EN23	Total weight of waste by type and disposal method	Environmental stewardship, 84 Other methods of waste disposal are not used.		✓ 62-63
EN24	Total number and volume of significant spills	The Company has implemented a programme and plans to report data on significant spills shortly. During 2013 there were no significant spills (reportable environmental incidents).		
MM3	Total amounts of overburden, rock, tailings, and sludges and their associated risks	Environmental stewardship, 84		
EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel convention Annex i, ii, iii, and viii, and percentage of transported waste shipped internationally	n/a		

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff.	There are four water bodies significantly affected by the organisation's discharges of water and runoff at Krasnoyarsk BU and 28 – at Irkutsk alluvial BU. All water bodies fall into different commercial fishing importance categories.		
EN27	Extent of impact mitigation of environmental impacts of products and services	n/a The Group's products do not have any significant environmental impact.		
EN28	Percentage of products sold and their packaging materials that are reclaimed by category	n/a The Group's products do not require packaging materials.		
EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	The significant environmental impacts of transportation were assessed for Natalka/Magadan BU in accordance with the IFC requirements. All new projects will be subject to such assessment in the future.		
EN31	Total environmental protection expenditures and investments by type	Environmental stewardship, 85		
EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Three grievances were filed in the reporting period. Claims under two of them were not confirmed and one was resolved with corrective actions taken.		
LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	13 grievances were filed in the reporting period, of which nine were resolved. Seven grievances filed before the reporting period were also resolved during 2013.		
HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	No incidents involving indigenous peoples' rights were identified during the reporting period.		
MM5	Total number of operations taking place in or adjacent to indigenous peoples' territories, and number and percentage of operations or sites where there are formal agreements with indigenous peoples' communities	SR2012: Employees, Diversity and local hiring, 28. SR2012: Communities, Stakeholder engagement, 44.		
MM6	Number and description of significant disputes relating to land use, customary rights of local communities and indigenous peoples	There were no significant disputes relating to land use, customary rights of local communities and indigenous peoples during the reporting period.		

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
MM7	The extent to which grievance mechanisms were used to resolve disputes relating to land use, customary rights of local communities and indigenous peoples, and the outcomes	There were no significant disputes relating to land use, customary rights of local communities and indigenous peoples during the reporting period.		
MM8	Number (and percentage) of company operating sites where artisanal and small-scale mining (ASM) takes place on, or adjacent to, the site; the associated risks and the actions taken to manage and mitigate these risks	n/a		
MM9	Sites where resettlements took place, the number of households resettled in each, and how their livelihoods were affected in the process	No resettlement took place in the reporting year.		
HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	All operating sites have been subject to Russian formal EIA process.		
HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	In 2013 the Company adopted a Human Rights Policy and a Stakeholder Engagement Policy, which introduced a grievance mechanism. No grievances were filed during the reporting period. Polyus Gold is working on the development and improvement of the grievance procedures.		
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Communitites, 86 SR2012: Environmental Stewardship, Performance results, 33. SR2012: Communities, sponsorship and charity, 45		✓ 62-63
SO2	Operations with significant actual and potential negative impacts on local communities	An ESIA was conducted for the Yakutia BU (Nezhdanenskoye). The adopted Stakeholder Engagement Policy includes a development stakeholder engagement plan. The plan's framework was agreed with the BUs. The Company plans to continue efforts in this field in the following years.		
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	There were no sanctions for non-compliance with laws and regulations.		

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	In 2013 the Company adopted a Human Rights Policy and a Stakeholder Engagement Policy, which introduced grievance mechanisms. No grievances were filed during the reporting period. Polyus Gold is working on the development and improvement of the grievance procedures.		
Supply chain				
EC9	Proportion of spending on local suppliers at significant locations of operation	Supply chain management, 60		
EN32	Percentage of new suppliers that were screened using environmental criteria	All suppliers are required to sign a contract addendum specifying their responsibility for environmental and H&S issues.		
EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Supply chain management, 60 The introduction of assessment of significant actual and potential negative environmental impacts in the supply chain is planned for 2014-2015.		
LA14	Percentage of new suppliers that were screened using labour practices criteria	In 2013 the Company adopted the Human Right Policy that outlines Polyus Gold's commitment to universal human rights, in particular, the rights of its employees to a safe and healthy working environment, to non-discrimination and the freedom of association. Where reasonable, Polyus Gold shall encourage its suppliers within its sphere of influence to comply with the principles stated in it.		
LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	Supply chain management, 60 The introduction of assessment of significant actual and potential negative impacts for labour practices in the supply chain is planned for 2014-2015.		
HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	In 2013 the Company adopted the Human Right Policy that outlines Polyus Gold's commitment to universal human rights. Where reasonable, Polyus Gold shall encourage its business partners within its sphere of influence to comply with the principles stated in it.		

Indicators		Location of disclosure / Comment	Omissions	External Assurance/ Page
HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	The Company strictly abides by the laws and does not operate in regions, where freedom of association and collective bargaining may be at risk. SR2012: Employees, Personnel rights, 26.		
HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	The Group ensures full compliance with the law at all subsidiaries. Child labour is totally unacceptable.		
HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	The Company ensures full compliance with the law and does not operate in regions where there is a risk of forced, or compulsory labour. Forced or compulsory labour is strictly prohibited by Russian law.		
HR10	Percentage of new suppliers that were screened using human rights criteria	In 2013 the Company adopted the Human Right Policy that outlines Polyus Gold's commitment to universal human rights. Where reasonable, Polyus Gold shall encourage its suppliers within its sphere of influence to comply with the principles stated in it.		
HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	Supply chain management, 60 The introduction of assessment of significant actual and potential negative human rights impacts in the supply chain is planned for 2014-2015.		
SO9	Percentage of new suppliers that were screened using criteria for impacts on society	In 2013 the Company adopted the Stakeholder Engagement Policy that paves the way for the introduction of the impacts on society screening in 2014-2015.		
SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	Supply chain management, 60 A social audit of the Company was conducted, which lays foundation for the introduction of assessment of significant actual and potential negative impacts on the local communities in the supply chain is planned for 2014-2015.		

Irkutsk region

Shaman Cape stands in the South West of Lake Baikal, which, at 1,642 metres, is the deepest lake on the planet. Home to unique species of flora and fauna, Baikal is a UNESCO World Heritage Site.

Remuneration

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4. Remuneration

4.1. Statement from the Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' remuneration report for 2013.

For much of the year, the Committee was ably chaired by Lord Clanwilliam, who stepped down on 13 November 2013. I would like to thank Lord Clanwilliam for his many years of successful service to the Board and the Remuneration Committee and his support since stepping down.

Last year's Directors' remuneration report received a vote in favour of 98.26% of votes cast at the 2013 Annual General Meeting and I thank shareholders for their support. This year, the Committee has agreed that where practicable and appropriate, the Company should take a best-practice approach and voluntarily follow UK Regulations with regard to the Directors' remuneration report, although it is not a requirement of its Jersey incorporation.

Therefore, in line with the new UK reporting regulations, the Directors' remuneration report has been redesigned this year and split into three sections:

- The Remuneration Committee report describes the main Committee activities during the year under review (section 4.2);
- the Directors' remuneration report explains how Polyus Gold's remuneration policy has been implemented and details the compensation paid to Executive and Non-Executive Directors during the 2013 financial year (section 4.3);
- the Directors' remuneration policy report describes our proposed remuneration policy and its alignment with our business strategy, including a summary of the key elements of pay (section 4.4).

Our remuneration strategy has remained largely consistent over many years. However, this year we continued the process, started in 2012, of evaluating compensation arrangements for Executive Directors and Senior management in light of the Company's UK listing. The remuneration policy for the Senior management team has been reviewed and we have approved the structure and targets of the short-term incentive scheme to strengthen the link between performance and reward.

Going forward, we will keep our remuneration strategy under review to ensure that we continue to reward the Senior management team for the achievement of strong financial results and the creation of shareholder value.

Bruce Buck
Chairman of the Remuneration Committee
London, 24 March 2014

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4.2. Remuneration Committee report

Membership

Current members

- Bruce Buck, Independent Non-Executive Director and Chairman of the Remuneration Committee;
- Adrian Coates, Independent Non-Executive Director and Senior Independent Director, and
- Kobus Moolman, Independent Non-Executive Director.

Former members

- Lord Clanwilliam, Independent Non-Executive Director[1].

The current Remuneration Committee was formed by a resolution of the Board of Directors acting on the recommendation of the Nomination Committee.

Key objectives

- To ensure that members of the Company's executive management are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contributions to the Company's success;
- Review of the ongoing appropriateness and relevance of the remuneration policy.

Committee responsibilities

The description of the Committee's role and responsibilities and its full terms of reference are available on the Company's website – www.polyusgold.com/company/corporate_governance/remuneration_committee/.

None of the Committee members has any personal financial interest (other than as a shareholder), conflict of interest, cross-Directorships or day-to-day involvement in the running of the business. The terms of reference of the Remuneration Committee restrict membership to an initial period of three years, after which time membership may be extended by the Board for a further three years provided appointees still meet the membership criteria.

Meeting and discussions

The Remuneration Committee met seven times over the course of the financial year. Additionally, a number of working-group meetings and conference calls between Committee members and the Company's legal and remuneration advisors were held. Please refer to section 6.3 "Board of Directors composition" for details of members' attendance at Committee meetings.

Review of the Committee work

During the year the Committee undertook a comprehensive review of Senior management compensation packages. Performance was reviewed against 2012 bonus scheme targets and the bonus pool for 2012 was approved.

Advisors to the Committee

During the year the Remuneration Committee was advised by specialist consultants, Towers Watson, who provided independent advice on matters under consideration by the Committee and updates on good practice, legislative requirements and market practice. Towers Watson's fees for this work amounted to USD 105,000. The Remuneration Committee is satisfied that the advice provided on executive remuneration is objective and independent and that no conflict of interest arises as a result of these services.

The Committee also received assistance from the former Chief Executive Officer, but it should be stressed that he played no part in discussions related to the setting of his own remuneration. In particular the Committee sought his advice and received recommendations from him in respect of his direct reports.

Since stepping down from the Board, Lord Clanwilliam has remained an advisor to the Committee on matters relating to senior executive pay. Lord Clanwilliam's fees for 2013 amount to USD 30,000 and he does not provide any other services to the Company or its subsidiaries.

[1] Resigned from the Committee on 13 November 2013.

4.3. Directors' remuneration report

In this section of the report we explain how Polyus Gold's remuneration policy has been implemented during the 2013 financial year. Given the changes in remuneration policy following a review in the year, the following section refers to a previous policy, in place for the years prior to 2013. This policy was closely aligned to local Russian market practice and is a legacy of the Company's growth in Russia. As such, Companythe main elements of compensation paid to the Chief Executive Officer were a fixed base salary, annual bonus and benefits.

Executive Directors' remuneration

In 2013 there were two Chief Executive Officers:
Pavel Grachev – appointed, 27 November 2013 as interim CEO;
German Pikhoya – resigned, 27 November 2013.

Base salary

The base salary of the Chief Executive Officer is reviewed on an annual basis. A number of factors are taken into account when salaries are reviewed. Key among them is corporate and individual performance and competitiveness assessed against appropriate peers in businesses in a similar sector and of a similar size and complexity.

The 2013 base salary increase for German Pikhoya was 15%, effective 1 April 2013. Following Mr. Pikhoya's resignation, Pavel Grachev was appointed as interim CEO. Mr. Grachev represents the interests of a major shareholder as a Non-Independent Director and does not receive any compensation from the Company for his services as interim CEO.

Benefits and allowances

The Chief Executive Officer is entitled to receive benefits, including payments for unused holiday, meals, healthy behaviour payments (modest payments made to non-smoking employees), additional allowances when travelling on business, compensation for travelling on business trips outside of contracted working days and medical insurance. During the financial year, this amounted to USD 1,233,450 for German Pikhoya, the former Chief Executive Officer. Pavel Grachev did not receive any benefits during the financial year.

Under the current and proposed remuneration policy, no Director receives pension contributions. This reflects local Russian market practice.

Annual bonus

The annual bonus paid to the Chief Executive Officer in 2013 relates to the previous financial year, 2012, and was based on annual performance and was measured by the achievement of the following financial and non-financial targets.

The table below outlines the 2012 performance metrics and their achievement during the 2012 financial year.

Indicators	Below target (% achievement)	On target (% achievement)	Better than target (% achievement)
EBITDA, USD million			170%
NAV, USD million			108%
Market standing, in terms of mineral reserve base and production volume		100%	
Share dynamics vs. peer group			130%
Gold output, tonnes			103%
TCC, USD/oz			117%
Gold recovery, %	97.4%		
OHS, incidents per 1,000 employees			109%

2013 Annual bonus

Pavel Grachev is not eligible to receive an annual bonus award for the 2013 financial year. The former CEO, German Pikhoya, did not receive a bonus payment in relation to the 2013 financial year, in line with his resignation from the Company.

Termination payments

German Pikhoya resigned as CEO and Director of the Company on 27 November 2013. On the date of his leaving the Company, compensation, as outlined in the table below, was paid.

Compensation Element	Treatment upon termination
Base salary	Base salary was paid up to the CEO's termination date upon which all payments ceased.
Benefits and allowances	Entitlement to ongoing benefits, allowances and other compensation ceased upon the date of termination. Compensation for unused leave to a value of USD 983,516 was paid upon termination.
Contractually entitled payments	The CEO's contract, entered into in 2011, entitled German Pikhoya to a termination payment of 12 months average salary. The calculation of average salary for the purposes of the termination payment is defined by Russian Law and includes all allowances and bonuses paid during the previous 12 months. The termination payment received by the outgoing CEO was USD 3,970,525.

Outside appointments for the Chief Executive Officer

To broaden the experience of the Chief Executive Officer, he may hold positions in other companies as a Non-Executive Director provided that permission is sought in advance from the Senior Independent Director. Any external appointment must not conflict with the CEO and Director' duties and commitments to the Company.

Pavel Grachev is a Non-Executive Director of JSC Federal Grid Company and received no fees from this position in the financial year.

Non-Executive Directors' remuneration

Non-Executive Directors received fees for their services to the Company. In 2014 the Chairman's fee level was increased by 80% and the basic fee levels for other Non-Executive Directors were increased by 40%. In addition, the members of the Audit Committee will receive an additional fee. The amount of fees is as set out in the table below.

Role	Fees USD
Chairman	450,000
Basic fees	350,000
Audit Committee membership fee	30,000

Auditable section

Single total figure table

Director[1]	Financial year	Total salary / fees USD	Annual bonus USD	Total other emoluments[3] USD	Fees paid to third parties USD	Total remuneration USD
Independent, Non-Executive						
Ilya Yuzhanov	2013	112,500	–	–	–	112,500
	2012	n/a	n/a	n/a	n/a	n/a
Adrian Coates	2013	380,000	–	–	–	380,000
	2012	217,500	–	–	–	217,500
Bruce Buck[2]	2013	–	–	–	350,000	350,000
	2012	–	–	–	200,000	200,000
Edward Dowling	2013	90,000	–	–	–	90,000
	2012	n/a	n/a	n/a	n/a	n/a
Kobus Moolman	2013	380,000	–	–	–	380,000
	2012	217,500	–	–	–	217,500
Former						
Robert Buchan	2013	104,167	–	–	–	104,167
	2012	250,000	–	–	–	250,000
Lord Clanwilliam	2013	348,333	–	–	–	348,333
	2012	217,500	–	–	–	217,500
German Pikhoya	2013	1,855,377	3,647,083	5,203,974	–	10,706,434
	2012	2,452,992	3,153,009	714,818	–	6,320,819

Directors’ shareholdings

There is no formal requirement for Directors’ to own shares in the Company. Information on Directors’ shareholdings is presented in section 5 “Directors’ report”.

There are no disclosures in this Annual report on remuneration in the following sections, as the regulations would normally require, as there is no salient information to report for the 2013 financial year. The sections are:

- further details on pension arrangements – Directors do not receive pension benefits;
- Chief Executive Officers percentage change in pay versus other employees – the changes in Executive Directors during the year do not make this comparison feasible or reflective of normal practice, particularly given the pay arrangements for the interim CEO.

Should such events occur going forward, full disclosure will be provided in line with regulatory requirements.

[1] There are three non-independent Non-Executive Directors; Anna Kolonchina, Igor Gorin and Pavel Grachev, none of whom received remuneration for their services to the Company in 2012 or 2013. Please refer to section 6.2 “The Board”, for the information on Board composition.
[2] Fees for services provided by Bruce Buck are paid to the law firm of Skadden, Arps, Slate, Meagher and Flom LLP, of which Mr. Buck is a partner. Fees in the table are net of VAT charged at 20%, which the Company recovers.
[3] Total other emoluments include compensation for unused leave, meals, healthy behaviour payments, medical insurance, daily allowances for travelling on business trips and compensation for travelling on business trips outside of contracted days, termination payment.

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4.4. Directors' remuneration policy report

Introduction

The Remuneration Committee presents the Director's remuneration policy report, which sets out Polyus Gold's forward-looking remuneration policy for all Executive Directors. As discussed in the Chairman's letter, because Polyus Gold is not incorporated in the UK this section of the Directors' remuneration report is not subject to a binding vote by shareholders. However, the Committee feels that it is important to comply with best practice on a voluntary basis as far as practicable. The following policy therefore aims to follow, and be compliant with, the new UK reporting regulations.

In 2012/13 the Committee reviewed compensation arrangements for Executive Directors and Senior management in light of the Company's growth into a UK listed international gold miner. The policies that we summarise in this section are a result of this review and were designed to align more closely with the long-term sustainable growth of the Company. Our policy is broken into a number of sections:

- remuneration policy in 2014 for Executive Directors, which sets out details of our annual remuneration elements;
- other relevant policies relating to Executive Directors remuneration, including recruitment, service contracts appointment and termination;
- remuneration policies that relate solely to the Non-Executive Directors;
- statements regarding the contextual information that the Committee considers, when setting policy in respect of the Executive and Non-Executive Directors.

Polyus Gold's remuneration policy

The remuneration policy for the Chief Executive Officer and Senior management team was reviewed in 2013. 2014 will therefore be a period of transition into the new remuneration structure.

Future policy table

Executive Directors

	Operation	Maximum opportunity
Base salary To maintain package competitiveness and reflect skills and experience.	Reviewed annually, with any change taking effect from 1 June and taking into account: • individual and business performance; • level of experience; • scope of responsibility including any changes during the year; • external comparisons to the international gold mining, UK and local Russian markets.	Executive Directors are eligible to receive an increase in base salary each year. The Committee will assess pay increase levels with reference to those factors described in this table but do not operate a limit on the level of increase that can be provided.
Other benefits To be market competitive for the purposes of recruitment and ensuring retention.	The Executive Directors are entitled to certain additional benefits, in line with typical practice in the UK and Russia. These include: • daily allowance for travelling on business trips; • compensation for travelling on business trips outside of contracted days; • medical insurance. The Committee retains the discretion to provide additional benefits as may be reasonably required to reflect changed circumstances (for example, in relation to existing or new Directors). These may include, but are not limited to: relocation costs, tax equalisation arrangements and cost of living allowances.	The Committee has not set a limit on the maximum level of benefits that can be provided to Executive Directors. In providing additional benefits the Committee will ensure that costs to the Company are reasonable and not excessive. The amount of compensation for travelling on business trips outside of contracted days is defined by the rules of Russian legislation.

	Operation	Maximum opportunity
Pension To be market competitive and to reward continuing service.	Retirement related benefits can be provided to Executive Directors based on local market practice either through a dedicated retirement scheme or cash allowances.	Currently the Company does not provide any retirement benefits to Executive Directors. The Committee retains the discretion to reassess this position. However, any future arrangements will not be excessive and will follow best practice.
Short-term incentive plan (STIP) Incentivise executives to achieve specific and stretching pre-determined goals over a short-term period.	Annual payments under the STIP are based on performance conditions calibrated and set by the Committee at the start of each financial year. Performance is measured over the preceding financial year. Targets under the STIP reflect the Company's annual plan, which in turn reflects the strategic priorities of the Group. The Company currently employs three broad STIP performance measures: • gold production; • total cash costs; • individual key performance indicators. Production and cost targets act as a gateway and determine the level of opportunity available which is then further assessed against individual KPIs. Achieving 'plan' results will equate to on-target STIP payment. Maximum payment under the STIP will only occur for exceptional annual performance under the plan. The Committee retains the discretion to assess, and change, the plan and performance measures each year in line with business needs.	On-target STIP opportunity is set at 100% of base salary for Executive Directors. A maximum STIP opportunity of 200% of base salary is available for exceptional performance. The Committee retains the discretion to adjust the level of bonus awarded, either up or down, in exceptional circumstances. If this discretion is enacted a full description of the circumstances and level of adjustment will be provided in the implementation report in the following year.

- Each year the Board meets to set the budget for the year ahead. The Remuneration Committee uses the budget, external forecasts for macroeconomic parameters, such as gold price, inflation rate, exchange rate, and business strategy to appropriately calibrate annual targets for the year. Budgets are set to be stretching to ensure a strong link between pay, performance and business strategy.
- Pay arrangements for Executive Directors are similar in structure to that provided to the wider Senior management team and corporate head office. However, the Committee feels that, given that the majority of operating locations are in Russia with talent sourced locally, the pay structure applied to roles below the senior team should naturally differ in structure.
- Polyus Gold has avoided, where possible, including unnecessary discretion in the policy table. However, exceptional or genuinely unforeseen circumstances may arise in the future and in those circumstances it may be in shareholders' interests for Polyus Gold to put in place remuneration arrangements that are outside the terms of the policy set out in this report. If this happens, Polyus Gold will be permitted to implement remuneration arrangements that it considers appropriate in the circumstances.
- A number of pre-existing and outstanding obligations will remain at the time that the new policy becomes effective, including obligations that are 'grandfathered' by virtue of being in force at 27 June 2012. Polyus Gold's policy is to honour all pre-existing obligations and commitments that were entered into before the effective date of this policy.

Non-Executive Directors[1]

	Operation	Maximum opportunity
Fees To attract and retain high-calibre, experienced Non-Executive Directors by offering globally competitive fee levels.	Non-Executive Director's fees are fixed in the contract with each Non-Executive Director. Fees are reviewed annually and competitiveness of total fees is assessed against those in companies of a similar size, complexity and industry.	The contract signed with the Chairman specifies a fee of USD 450,000 p.a. the contracts signed with other Non-Executive Directors specify a fee of USD 350,000 p.a. for each Director. The members of the Audit Committee are additionally paid USD 30,000 p.a. each for executing their duties.
Benefits	Non-Executive Directors receive reimbursement of expenses that are incurred in the performance of their duties as Non-Executive Directors. The Company retains the discretion to provide further benefits to Non-Executive Directors in line with standard practice in the market.	

Recruitment and promotion policy

Polyus Gold operates in an international talent market and, as such, the Company's recruitment policy reflects the need to offer market competitive remuneration packages, both in terms of opportunity level and structure. The table below outlines the Committee's approach to the appointment or promotion of new Directors.

Recruitment policy	
Base salary	Base salary for new appointees will be set as described in the main policy table. Upon promotion a Director may be granted a higher than normal pay increase to align pay with the role's new responsibilities and accountabilities.
Variable pay	New appointees will be eligible to participate in the Company's incentive schemes on the same basis as described in the main policy table.
Buy-out of existing awards from previous employers	The Committee will assess the value of previous awards that a prospective employee may forfeit upon leaving their previous employer. In doing so the Committee may seek independent advice and/or valuation services. It is the intention of the Committee that any buy-out awards will be made on a value neutral basis, or lower, to the prospective incumbent, will not be excessive and will be provided at an acceptable cost to the Company. Awards will mimic the vehicle of the forfeited award where possible with payment made in cash or shares. Where awards are subject to performance conditions the Committee will make awards of a similar expected value as the forfeited awards.
Appointment awards	Where necessary, to aid the recruitment of key/critical talent, the Committee may use its discretion to grant additional recruitment awards, in cash or shares, in the year of appointment.

[1] Non-Executive Directors Anna Kolonchina and Igor Gorin each represent a major shareholder and hence are not deemed to be independent. Neither Anna Kolonchina, nor Igor Gorin received a fee from the Company for their Directorship. It is the Committee's intention that this policy will continue for all non-independent Non-Executive Directors.

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Termination remuneration policy

The Company's forward looking policy does not allow for any payment to Executive Directors upon exiting the Company beyond that to which they are contractually entitled.

Interim Chief Executive Officer

Pavel Grachev	
Date of service contract	no service contract
Notice period	–
Remuneration	–
Termination provisions	–

Non-Executive Directors

Name	Remuneration	Date of appointment	Notice period
Adrian Coates		17/03/2010	None
Kobus Moolman		26/07/2011	None
Bruce Buck		26/07/2011	None
Edward Dowling		04/10/2013	1 month
Ilya Yuzhanov		04/10/2013	1 month
Anna Kolonchina	There are three non-independent Non-Executive Directors none of whom receive remuneration for their services to the Company.	26/07/2011	1 month
Pavel Grachev		13/11/2013	1 month
Igor Gorin		21/03/2013	1 month

Olimpiada. Board members at the pit edge.

Statement of consideration of employment conditions elsewhere in the Company

The Remuneration Committee will take into account the pay and employment conditions of other Company employees when determining Executive Directors' remuneration, particularly when determining base salary increases. The Remuneration Committee will also obtain information on the remuneration paid for comparable roles at other companies to provide a point of reference for determining remuneration policy.

Statement of consideration of shareholder views

Representatives of two of the three major shareholders (with 78% combined ownership); Wandle Holdings Limited (Anna Kolonchina and Pavel Grachev) and Wamika Trading Limited (Igor Gorin) sit on the Board and therefore the Committee regularly obtains feedback and views on the remuneration arrangements in place for Executive Directors. Whilst the majority shareholding is with three parties, we nevertheless communicate with our broader shareholder base. This allows us to respond to the needs and concerns of all our shareholders throughout the year.

Bruce Buck
Chairman of the Remuneration Committee
London, 24 March 2014

Magadan region

Named after the author, Jack London's Lake is set in wild scenery in remote Magadan.

Directors' report

5

5. Directors' report

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The Directors present the Annual report on the affairs of the Group, together with the financial statements and the independent auditor's report, for the year ended 31 December 2013.

Fair, balanced and understandable

A key requirement of our financial statements is for the report and accounts to be fair, balanced and understandable. The Directors are satisfied that the report and accounts meet this requirement as appropriate weight has been given to both positive and negative developments in the year. In justifying this statement the Directors have considered the robust process which operates in creating the report and accounts, including:

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

The Directors reviewed the Annual report and believe that the Annual report is true, fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The report discusses all aspects of the Company's business, provides non-IFRS financial metrics in addition to the figures disclosed in the consolidated financial statements and has a significant set of non-financial statistic. Certain parts of the Annual report audited by independent consultants. The independent auditors provided an opinion on the report as a whole.

Principal activities

The principal activity of the Group is the production and sale of gold. In order to maintain its operations the Group is also involved in exploration, construction and research activities. The Group's gold production activity is described in section 2 "Strategic report".

The Group's subsidiaries which principally affect the profits and net assets of the Group in the reporting year are described in note 6 to the consolidated financial statements for the year ended 31 December 2013.

Business review

Information about the business review, including the KPIs, risks, and operational and financial performance, can be found on pages 20 to 46.

- A summary of performance during the year is presented in section 1.2 "Performance";
- key performance indicators are described in section 2.6 "Analysis using key performance indicators";
- a description of the risks associated with the Group can be found in section 2.5 "Principal risks and uncertainties";
- the Operational Review is available on pages 43 to 46;
- the Financial Review is available on pages 26 to 41;
- information about the use of financial instruments by the Company and its subsidiaries is given in note 33 to the consolidated financial statements.

As a whole, the Annual report provides information about the Group's businesses, its financial performance during the year and likely future developments. Other than as described in this report, there have not been any significant changes to the Group's principal activities during the year under review.

Natalka. Assembling of mills.

Greenhouse gas emissions

The Group's total greenhouse gas (GHG) emissions in 2013 were 4.83 million tonnes of CO_2e, some 5.9% higher than in 2012.

In 2013, 38% of the Group's GHG emissions came from direct combustion of fossil fuels (petrol, diesel, coal etc.) at the operating mines and 62% came from indirect emissions (such as purchased electricity). Carbon dioxide accounted for 34% of total GHG emissions in 2013.

Total GHG emissions increase alongside increases in the volume of ore mined and processed. Because of the fluctuating nature of the gold price, the stripping ratio and the gold grade, we believe that the best measurement of GHG emissions is 'GHG emission in thousand tonnes of CO_2e per million cubic metres of rock moved.

	2013	2012
GHG emission (thousand tonnes of CO_2e/million cubic metres of rock moved)	73	68

For more details on GHG emissions[1] including a breakdown by gases and sources of emission, calculation methodology, as well the Company's GHG policy and targets for the reduction of GHG emissions please refer to section 3 "Sustainability report".

Corporate governance statement

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

Dividends

The dividend policy is described in section 6.6 "Dividend policy". The dividends for the year ended 31 December 2013 are subject to review by the Board and shareholders' approval, however given the current gold price environment, and the ongoing capital requirement on Natalka project, the Board is not currently contemplating dividends in respect of FY2013. There were no interim dividends in 2013.

Directors and Directors' interests

The composition of the Board of Directors is given in section 6.3 "Board of Directors composition". As of 31 December 2013, two Directors held shares in the Company.

Director	Number of shares as at 31 Dec 2013	% Issued share capital	Number of shares as at 31 Dec 2012	% Issued share capital
Adrian Coates	33,000	0.001	33,000	0.001
Kobus Moolman	39,579	0.001	39,579	0.001

[1] Carbon dioxide equivalent.

Directors’ indemnity

In 2012 the Board reviewed and approved qualifying third party indemnity provisions for the Directors.

Acquisition of the Company’s own shares

At the Annual General Meeting held on 31 May 2013, shareholders authorised the Company to make on-market purchases of up to 303,214,996 of its ordinary shares, representing approximately 10% of the Company’s issued share capital at that time. Shareholders will be asked at the 2014 Annual General Meeting to renew this authority. The Directors currently have no intention of exercising this authority, if granted.

During the financial year ended 31 December 2013, the Company did not make any on-market or off-market purchases of its own shares under any share buy-back programme.

The remuneration of the Directors set out in section 4.3 “Directors’ remuneration report”.

Capital structure

The Company has 3,600,000,000 shares authorised and 3,032,149,962 shares issued. Details of the movements in the Company’s issued share capital during the year are shown in note 25 to the consolidated financial statements for the year ended 31 December 2013. The Company has one class of ordinary shares, which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

Pursuant to the authority granted to them by the shareholders at the Company’s AGM held on 31 May 2013 the Directors have the authority to allot shares up to a maximum nominal amount of £ 15,160.74. The Directors have not exercised this authority. The authority expires, unless previously renewed, varied or revoked on 31 May 2018.

The Company has no employee share schemes.

Registration and domicile

The Company is incorporated and registered in Jersey under company number 91264. The Company has its registered offices at Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES, Channel Islands. The Company’s London office is: 18b Charles Street, London W1J 5DU, United Kingdom.

Charitable donations

During the year the Group made charitable donations of USD 3,914 thousand, principally to local charities serving the communities in which the Group operates. There were no political donations during the year ended 31 December 2013.

Substantial shareholdings

At 31 December 2013, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following holdings of voting rights in the Company:

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

There were no changes to the significant shareholders’ holdings as of 24 March 2014.

Substantial shareholdings as at 24 March 2014

Shareholder	Number of shares	Nature of holding	% of issued share capital
Wandle Holdings Limited[1]	1,219,680,676	Indirect	40.22
Lizarazu Limited[2]	560,947,743	Indirect	18.50
Wamika Trading Limited[3]	303,214,996	Indirect	10.00
Receza Limited[3]	281,265,281	Indirect	9.28
Chengdong Investment Corporation[4]	151,607,496	Indirect	4.99
JSC VTB Bank	110,761,797	Indirect	3.65

Auditors

Each of the persons who is a Director at the date of approval of this Annual report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware;
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information;

Deloitte have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board,
Pavel Grachev, Interim CEO

London, 24 March 2014

1 Wandle Holdings Limited is an entity where the beneficiary is the Suleyman Kerimov Foundation.
2 Lizarazu Limited is an entity where the beneficiary is Amirkhan Mori.
3 Wamika Trading Limited and Receza Limited are entities where the beneficiary is Gavriil Yushvaev.
4 Chengdong Investment Corporation is a wholly-owned subsidiary of CIC International Co Limited.

Krasnoyarsk region

Ergaki National Park, to the south of the Krasnoyarsk Region is famous for its wild, craggy peaks.

Corporate governance report

6

6. Corporate governance report

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6.1. Chairman's statement

Polyus has applied principles set out in the UK Corporate Governance Code, including the Principles relating to the Role and Effectiveness of the Board in 2012.

I am pleased to state that for the reporting year the Company complied with the provisions set out in the Code, and the Board complied with main principles of the Code.

I joined the Polyus' Board in October 2013 and was excited that the Company operated high-level corporate governance standards and welcomed new initiatives. It is my pleasure to chair the Board of such a Company. Such standards are very important for me personally and for my colleagues on the Board.

The Governance section explains how we achieve that and how the principles have been applied. you may also refer to the Directors' remuneration report and the Audit Committee report for additional information on compliance with the Code.

Leadership

In my opinion, the Company is headed by an effective Board, which is collectively responsible for the long-term success of the Company. Every Director acts in what they consider the best interests on the Company, consistent with their statutory duties. There is a clear division of responsibilities at the head of the Company between the Board and the executives responsible for the running of the Company's business. No one individual has unfettered powers of decision. As Chairman of the Board, I am responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Non-Executive Directors, as part of their role as members of a unitary Board, constructively challenge and help develop proposals on strategy.

Effectiveness

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

Appointment of new Directors to the Board is made on the basis of formal, rigorous and transparent procedures and the search for Board candidates is made against objective criteria with due regard for the benefits of diversity on the Board. Detailed explanation is given in section 6.11 "Nomination Committee report".

All Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively. In compliance with the Code (cl. B.3.2) the terms and conditions of appointment of Non-Executive Directors are available for inspection by any person at the Company's registered office during the normal business hours and at the AGM.

All Directors receive an induction on joining the Board and regularly update and refresh their skills and knowledge and familiarity with the Company as required in order to fulfil their role. Directors are supplied in a timely manner with information in a form and of a quality appropriate to enable them to discharge their duties.

In the year 2013 the Board undertook a formal and rigorous annual evaluation of its performance and that of its Committees and individual Directors. Please refer to the paragraph headed "Evaluation", later in this section.

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

Accountability

The Board's responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements.

The Board annually conducts a review of the effectiveness of the Company's risk management and internal control systems, including financial, operational and compliance control. Please refer to section 6.10 "Risk Committee report".

The Board has established formal and transparent arrangements for considering how to apply corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors. For more information please refer to section 6.9 "Audit Committee report".

Remuneration

Directors' remuneration is sufficient to attract, retain and motivate Directors of the quality required to run the Company successfully. For detailed information please see section 4.2 "Remuneration Committee report".

Relationships with shareholders

The Board maintains a dialogue with shareholders based on the mutual understanding of objectives. The Board use the AGM to communicate with the investors and to encourage their participation. The Directors attended the AGM held on 31 May 2013. Directors have developed an understanding of the views of major shareholders about the Company through direct face-to face contact, analysts' briefings and surveys of shareholder opinion. A notice of AGM and related papers were made available to shareholders and placed on the website on 29 April 2013.

The chairmen of the Committees usually present at the AGM and are available to answer questions. The Company arranges for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting.

The Company places great importance on maintaining active engagement with its key financial audiences: institutional investors, including current and potential shareholders, bondholders and both equity and fixed income sell-side analysts.

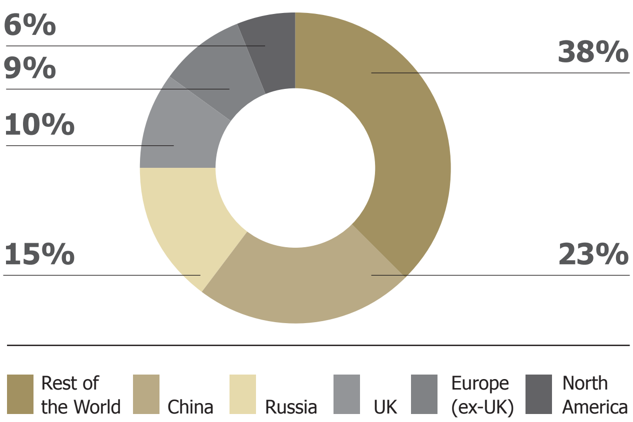
The Company strictly abides by all applicable disclosure requirements for its premium listing on the LSE. Following the placement of our first Eurobond in 2013, we further improved transparency of our reporting to ensure equal access for all financial audiences to price-sensitive information, and to better facilitate investor communications.

The Company releases trading updates on a quarterly basis, and in accordance with IFRS, releases financial results on a half-yearly basis. Such announcements are always supported by webcast presentations and conference calls conducted on the same day and hosted by Senior management.

Relevant reports, announcements and presentations of results and other developments of importance to the market, are immediately placed on the Company's website www.polyusgold.com in the 'investors' or 'media' sections. The market is informed well in advance about forthcoming results announcements in the 'investor calendar' section of the web-site. Historical financial information is also available on the web-site.

The Company's Senior management maintain contact with our investor base around the world through regular roadshows (1-2 per year), investor conferences (about 10 per year) and other investor meetings. In 2013, the Company participated in 11 investor conferences and met over 150 institutional investors.

Geographical distribution of PGIL free float



Compliance with the UK Corporate Governance Code

I confirm that during the reporting year the Company has complied with the UK Corporate Governance Code. The corporate governance statement can be found in section 5 "Directors' report".

Details of the Board evaluation policy and its operation are given below. The Nomination Committee established a Diversity policy, which was approved by the Board and a summary is presented below. In addition, the Board and the HSEC Committee developed the Human Rights policy. The policies were adopted at a Board meeting on 13 December 2013.

Board evaluation

The Board is required to review its performance and that of its members. This year the process was facilitated internally with a review of questionnaires completed by the individual Directors. The results were considered by the Board as part of its review of performance. The questionnaire asked Directors to grade areas such as the performance of the Board and its Committees, the effectiveness of Executive and Non-Executive Directors, the monitoring of operational performance, and corporate governance, as well as leadership and culture.

In the normal course of business, an annual performance review of the Board and its Committees is undertaken in accordance with section B.6.1 of the Code. A performance review of the Chairman of the Board was undertaken in February 2014.

The evaluation process concluded that the Board and its Committees remain effective in fulfilling their responsibilities and that each Director continues to make a valuable contribution to the running of the Group. An external Board evaluation process will be carried out in 2014.

In addition, the Audit Committee carried out a self-assessment of its performance in December 2013 and the Chairman of the Audit Committee reported on this process to the Board in December.

Ilya Yuzhanov
Chairman of the Board, London, 24 March 2014

6.2. The Board

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

The purpose of the Board, according to the Schedule of matters reserved for the Board, is to:

- monitor Group activities to see that sustainable value is being created;
- evaluate business strategies and monitor their implementation;
- monitor and review the performance of Management;
- monitor the performance of the existing asset portfolio and new business initiatives;
- develop, review and monitor Board and senior executive succession plans;
- maintain a current view of prevailing market conditions and trends;
- monitor key performance indicators;
- provide accountability to shareholders through appropriate reporting and regulatory compliance;
- monitor the auditing and control mechanisms;
- understand and ensure the management of operational business and financial risks to which the Group is exposed;
- observe and ensure compliance with Health, Safety, Environment and Community policy;
- review its own contribution to the Company's performance;
- ensure continuing adherence to disclosure provisions of relevant legislation;
- safeguard the Group's reputation, values, ethics, culture and assets, including knowledge;
- evaluate its own performance and that of the Board advisory Committees.

Board activity

The Board acts in compliance with FCA Disclosure and Transparency Rules, following the spirit of the UK Corporate Governance Code to good effect. The Board met sufficiently regularly to discharge its duties effectively in compliance with the formal schedule of matters, in the best interest of the Company.

In 2013, 22 meetings were held, including 7 face-to-face meetings, 12 conference calls and 3 meetings held by means of passing a written resolution. One of the meetings was held in Krasnoyarsk and the Board additionally inspected the Company's mining operations in the Krasnoyarsk region. In addition, outside of the framework of Board meetings, the Directors inspected the Group's other mining operations.

In addition to it's discharge of the duties outlined in the Schedule of Matters Reserved for the Board, during 2013 the Board paid detailed attention to developments with the Natalka project, discussion and implementation of new policies, the issue of a USD 750 million Eurobond, the sale by Onexim of its interests to Lizarazu Limited and Receza Limited, relationship agreements between the Company and its principal shareholders and subsequent changes to the composition of the Board.

Natalka

On a regular basis the Board considered reports on the status of the Natalka project. The Board's stated plan was to have the full flow sheet operational by the middle of 2014, but continued weakness in the price of gold led to a re-sequencing of this plan and a decision was taken to postpone commissioning of the 10 mtpa plant, whilst continuing to develop technology at the pilot plant. The Board considered that this would additionally allow for a re-scheduling of capital and operating expenditures.

Group policies

The Board considered and adopted new Human Rights and Diversity Policies. Each of these policies is described later in this section of the report.

Eurobond issue

Early in 2013, the Board investigated the funding options available to the Group to finance its expansion plans and decided that its best interests would be served by the issue of a USD 750 million Eurobond. Management was tasked with putting the necessary plans in place.

Ownership and Board changes

Following the changes in ownership arising from the sale of the stake in the Company owned by Onexim, the Board approved new relationship agreements with its major shareholders. These agreements led to changes in the composition of the Board and its Committees.

Chairman, Ilya Yuzhanov

The Chairman is responsible for leadership of the Board. In particular, he will:

- ensure effective operation of the Board and its Committees in conformity with the highest standards of corporate governance;
- ensure effective communication with shareholders, host governments and other relevant constituencies and that the views of these groups are understood by the Board;
- set the agenda, style and tone of Board discussions to promote constructive debate and effective decision-making;
- chair the Nomination Committee and build an effective and complementary Board, initiating change and planning succession on Board and group executive appointments;
- support the CEO in the development of strategy and, more broadly, to support and advise the CEO;
- promote effective relationships and communications between Non-Executive Directors and members of the Group's executive;
- ensure that the Board receives accurate, timely and clear information on the group's performance, the issues, challenges and opportunities facing it and matters reserved to it for decision.

Chief Executive Officer, Pavel Grachev[1]

The CEO is responsible for the day-to-day management of the Group. In particular he will:

- assist the Board in the development of the Group's strategy and objectives;
- oversee the development of the Group's budgets, for approval by the Board;
- implement the Group's strategy and policies;
- maintain a close working relationship with the Board in general and the Chairman in particular.

Senior Independent Director, Adrian Coates

Adrian Coates is the Senior Independent Director.
In particular he will:

- act as a sounding Board for the Chairman;
- serve as an intermediary for the other Directors where necessary;
- make himself available to shareholders if they have any concerns which have not been resolved through the normal channels;
- conduct an annual review of the performance of the Chairman.

[1] Interim CEO.

6.3. Board of Directors composition

Ilya Yuzhanov

- Chairman of the Board
- Chairman of the Nomination Committee

Bruce Buck

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

Adrian Coates

- Senior Independent Director
- Chairman of the Risk Committee
- Member of the Audit Committee
- Member of the Nomination Committee
- Member of the Remuneration Committee

Edward Dowling

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

Igor Gorin

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

Pavel Grachev

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

Anna Kolonchina

- Non-Executive Director
- Member of the Risk Committee

Kobus Moolman

- Independent Non-Executive Director
- Chairman of the Audit Committee
- Member of the Risk Committee
- Member of the Remuneration Committee

The Board of Directors is composed of eight members: the Non-Executive Chairman (Ilya Yuzhanov), six Non-Executive Directors (Bruce Buck, Kobus Moolman, Adrian Coates, Igor Gorin, Edward Dowling and Anna Kolonchina) and Executive Director, Pavel Grachev.

In compliance with the UK Corporate Governance Code half the Board, excluding Chairman Ilya Yuzhanov[1] – are independent Directors (Bruce Buck, Kobus Moolman, Adrian Coates and Edward Dowling).

Current members

Ilya Yuzhanov

Chairman of the Board (since 4 October 2013), Chairman of the Nominations Committee (Since 4 October 2013)

Skills and experience

- Leningrad State University (economics) (1982)
- Leningrad State University, PhD (economics) (1989)
- OJSC Gazprom, Board Member (1999–2003)
- Minister for Antimonopoly Policy and Support to Entrepreneurship of the Russian Federation (1999–2004)
- OJSC United Energy Systems of Russia, Board Member (1999–2008)
- OJSC Russian Railways, Board Member (2002–2004)
- OJSC Nomos-Bank, Chairman and member of the Supervisory Board (2004–2013)
- OJSC Kirovsky Zavod, Board Member (2006–2009)
- OJSC Novatek, Board Member (2006–2009)
- OJSC Uralkali, Board Member (2006–2011)
- OJSC Interregional Distribution Grid Companies Holding (June 2008 to December 2008)
- OJSC Polymetal, Chairman of the Board (2008–2012)
- OJSC Alrosa, Supervisory Board Member (2009–2012)
- OJSC Otkritie Financial Corporation, Board Member (2012 – March 2014)

Other current appointments

- Association of Independent Directors of Russia, Supervisory Board
- OJSC Alrosa Supervisory Board, Chairman (since 2009)
- Rusnano State Corporation, Board and Audit Committee Member (since 2012)

Honours, awards, memberships

- Association of Independent Directors, Russia's Best Independent Director (2007 and 2010)
- Association of Independent Directors, Russia's Best Chairman of the Board (2012)

Bruce Buck

Independent Non-Executive Director (since 26 July 2011), Chairman of the Remuneration Committee (since 13 November 2013, member since 26 July 2011), Member of the Nominations Committee (since 26 July 2011), Member of the Health, Safety, Environment and Community Committee (since 26 July 2011, Chairman, prior to 13 November 2013)

Skills and experience

- Columbia University School of Law, J.D. (1970)
- Registered Foreign Lawyer in England and Wales (with 25 years experience)
- Financing of transactions, mergers and acquisitions

Other current appointments

- Skadden Arps Slate Meagher & Flom LLP (Europe), Managing Partner
- Chelsea FC plc. Chairman of the Board
- Chelsea Football Club Limited (operating subsidiary of Chelsea FC plc.) Chairman of the Board
- FA Premier League (the UK's top tier league), Member of the Audit Committee
- Orbis UK (UK Registered Charity), Trustee and Member of the Audit Committee

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

Adrian Coates

Independent Non-executive Director of KazakhGold Ltd (since 17 March 2010) and Senior Independent Director of PGIL (since 26 July 2011), Chairman of the Risk Committee (since 26 July 2011), Member of the Audit Committee (since 17 March 2010), Member of the Nomination Committee (since 26 July 2011), Member of the Remuneration Committee (since 26 July 2011)

Skills and experience

- Cambridge University, MA in economics (1983)
- London Business School, MBA (1984)
- UBS Investment Bank, Managing Director, Metals and Mining (responsible for originating the landmark Billiton IPO) (1996–1998)
- HSBC Bank plc. Global Sector Head, Resources and Energy (1998–2008)
- Lead banker in a number of large-scale metals and mining transactions
- Consultant to a number of leading metal and mining companies

Other current appointments

- Regal Petroleum plc. Non-Executive Director, Chairman of the Audit Committee (since 2010)

Edward Dowling

Independent Non-Executive Director (since 4 October 2013), Chairman of the Health, Safety, Environment and Community Committee (since 13 November 2013), Member of the Audit Committee (since 13 November 2013), Member of the Risk Committee (since 4 October 2013), Member of the Nomination Committee (since 13 November 2013)

Skills and experience

- Pennsylvania State University, BS in mining engineering and mineral processing (1982)
- Pennsylvania State University, MS in mineral processing (1987)
- Pennsylvania State University, PhD in mineral processing (1998)
- Phelps Dodge, Engineer (1988–1992)
- Chino Mines Company (a Phelps Dodge subsidiary) Operations Manager and General Superintendent (1992–1993)
- Cyprus Amax Minerals SVP, Process Management and Engineering (1993–1998)
- Cleveland Cliffs Inc. Executive Vice President, Head of Operations (1998–2004)
- De Beers, Executive Director for Group Mining and Exploration (2004–2006)
- Meridian Gold Inc. President and CEO (2006 to 2008)
- Alacer Gold, President and CEO (1998–2012)

Other current appointments

- Alacer Gold, Director (since 2008)
- Teck Resources Limited, Director (since 2012)

Honours, awards, memberships

- Society for Mining, Metallurgy and Exploration, Distinguished Member (since 1979)
- US National Mining Association, Member (since 1993)
- Mining and Metallurgical Society of America, Member (since 1993)
- US National Materials Advisory Board (1993–2006)
- Colorado School of Mines, University Advisory Board Member (2006–2012)
- Robert Hallowell Richards Award (2001)
- Daniel Cowan Jackling Award (2013)

Igor Gorin

Non-Executive Director (since 31 March 2013), Member of the Risk Committee (since 26 April 2013), Member of the Health, Safety, Environment and Community Committee (since 13 November 2013).

Skills and experience

- Financial University under the Government of the Russian Federation, with honours, MA (International Economic Relations (2000)
- Financial University under the Government of the Russian Federation, PhD (International Economic Relations) (2003)
- JSC VTB Bank, Senior Officer of Corporate Banking Department (2000–2002)
- Commerzbank, Associate Director-Deputy Head of the of Local Credit Office Moscow (2002–2005)
- Raiffeisenbank Russia, Head of ECM and M&A practice in Investment Banking (2005–2011)
- Raiffeisenbank Investment (Investment banking arm of Raiffeisenbank Russia), Managing Director (2011–2013)
- Independent M&A and financial advisor (May 2013 – present)

Pavel Grachev

Executive Director, Interim Chief Executive Officer (since 27 November 2013), Member of the Nomination Committee (since 13 November 2013)

Skills and experience

- Saint Petersburg State University (law) (1997)
- University of Trieste (law) (1998)
- Nafta Moskva LLC, Head of Legal Department (2006–2008)
- OJSC Polymetal, Board Member (2006–2008)
- Polyus Gold, Board Member (2009–2011)
- OJSC Uralkali, General Director (2010–2011)
- OJSC Uralkali, Board Member (2010–2012)
- PIK Group, Board Member (2009–2011) Chairman (2010–2011)
- Alpina Capital A.C.L. Limited (Cyprus), Head of Moscow Representative Office (2011–2013)
- OJSC Far East and Baikal Region Development Fund, General Director (January to September 2013)

Other current appointments

- Nafta Moskva (Cyprus) Limited, Chairman of the Board
- JSC Federal Grid Company, Board Member

Anna Kolonchina

Non-Executive Director (since 26 July 2011), Member of the Risk Committee (since 26 July 2011)

Skills and experience

- Financial University under the Government of the Russian Federation (economics) (1994)
- Deutsche Bank AG, London, Director (2001–2008)
- Wainbridge Limited, Managing Director (March 2008 to November 2008)
- OJSC PIK Group, Vice-President for Economics and Finance (2008–2010)

Other current appointments

Nafta Moskva, Managing Director (since 2010)

Kobus Moolman

Independent Non-Executive Director (since 26 July 2011), Chairman of the Audit Committee (since 26 July 2011), Member of the Risk Committee (since 26 July 2011), Member of the Remuneration Committee (since 13 November 2013)

Skills and experience

- North Western University in Potchefstroom, MA (financial accounting) (1978)
- South African Institute of Chartered Accountants, Qualified Chartered Accountant (1978)
- Ernst & Young, South Africa, (where he became a Senior Audit Partner) (1981–2002)
- Deloitte & Touche CIS, Russia, Senior Audit Partner, Leader of the Mining Industry Group (2002–2008)
- International Audit Firm, Kingdom of Bahrain, Audit and IFRS technical partner for the Gulf Co-operation Council region (2009–2010)

Other current appointments

Saudi Arabian Mining Company (Ma'aden), Kingdom of Saudi Arabia, Chief Audit Executive (since 2010)

Honours, awards, memberships

- Independent Regulatory Board of the South African Institute of Chartered Accountants, Member (since 1978)
- Independent Regulatory Board for Auditors in South Africa, Member (since 1978)

Members resigning during the year

German Pikhoya

(resigned on 27 November 2013)

Executive Director, Chief Executive Officer, Member of the Health, Safety, Environment and Community Committee

Lord Clanwilliam

(resigned on 13 November 2013)

Independent Non-Executive Director, Member of the Audit Committee, Member of the Nominations Committee, Chairman of the Remuneration Committee and Member of the Health, Safety, Environment and Community Committee

Robert Buchan

(resigned on 31 May 2013)

Independent Non-Executive Director, Chairman of the Board, Chairman of the Nomination Committee

Vladimir Chernukhin

(since 21 March 2013, resigned on 10 April 2013)

Non-Executive Director

Alexander Mosionzhik

(resigned on 5 March 2013)

Non-Executive Director

Dmitry Razumov

(resigned on 5 March 2013)

Non-Executive Director

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Director	Board (22 meetings[2])	Remuneration Committee (7 meetings[2])	Nomination Committee (4 meetings[2])	Audit Committee (7 meetings[2])	Risk Committee (4 meetings[2])	HSEC Committee (4 meetings[2])
Chairman						
Robert Buchan[3]	9/10[4]		0/1			
Ilya Yuzhanov[5]	6/7		2/2			
Senior Independent Director						
Adrian Coates[6]	21/22	6/7	4/4	7/7	4/4	
Executive Director						
German Pikhoya[7]	20/20					3/3
Pavel Grachev[8]	5/5		1/1			
Independent Non-Executive Directors						
Bruce Buck[9]	20/22	7/7	4/4			4/4
Kobus Moolman[10]	20/22	1/1		7/7	4/4	
Edward Dowling[11]	6/7		1/1	1/1	2/2	2/2
Lord Clanwilliam[12]	15/18	6/6	2/3	5/6	2/2	3/3
Non-Executive Directors						
Igor Gorin[13]	15/17				3/3	1/1
Anna Kolonchina[14, 15]	15/19				3/4	
Alexander Mosionzhik[15, 16]	1/1					
Dmitry Razumov[15, 16]	0/1					
Vladimir Chernukhin[17]	1/3					

Board and Committees' meetings frequency and attendance[1]

1 Includes meetings in the form of conference calls and resolutions.
2 Number of meetings during the reporting year.
3 Resigned from the Board and Nomination Committee on 31 May 2013.
4 The first figure indicates the number of Board/Committee meetings attended; the second figure indicates the total number of Board/Committee meetings during the service of the Director.
5 Appointed to the Board and Nomination Committee on 4 October 2013.
6 Appointed to the Board on 17 March 2010, Risk Committee on 26 July 2011, Audit Committee on 17 March 2010, Remuneration Committee on 26 July 2011, Nomination Committee on 26 July 2011.
7 Resigned from the Board and relevant Committees on 27 November 2013.
8 Appointed to the Board and Nomination Committee on 13 November 2013, was appointed Interim CEO on 27 November 2013.
9 Appointed to the Board on 26 July 2011, Remuneration Committee on 26 July 2011, Nomination Committee on 26 July 2011, HSEC Committee on 26 July 2011.
10 Appointed to the Board on 26 July 2011, Risk Committee on 26 July 2011, Audit Committee on 26 July 2011, appointed to Remunerations Committee on 13 November 2013.
11 Appointed to the Board and Risk Committee on 4 October 2013, appointed to HSEC, Audit and Nominations Committees on 13 November 2013.
12 Resigned from the Board and relevant Committees on 13 November 2013.
13 Appointed to the Board on 21 March 2013, Risk Committee on 26 April 2013, HSEC Committee on 13 November 2013.
14 Appointed to the Board on 26 July 2011, Risk Committee on 26 July 2011.
15 Due to the restrictions of the UK Takeover Code, Anna Kolonchina, Alexander Mosionzhik and Dmitry Razumov did not attend Board meetings after the Company had been put into the Offer Period by the UK Takeover Panel (from 13 September 2012 until 22 February 2013). For more details refer to section 5 "Director's report".
16 Resigned from the Board on 5 March 2013.
17 Appointed on 21 March 2013 and resigned on 10 April 2013.

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6.4. Diversity policy

In December 2013 the Board approved the Diversity policy following a recommendation from the Nomination Committee.

The Board recognises the benefits of diversity. Diversity encompasses diversity of perspective, experience, skills, background, knowledge, international and industry experience, and gender, amongst many other factors.

A truly diverse Board will make good use of the differences and other qualities of its Directors. These differences will be considered when determining the optimum composition of the Board and where possible should be balanced appropriately. Notwithstanding the foregoing, all Board appointments will always be made on merit, in the context of the skills and experience that the Board as a whole, requires to be effective.

The Nomination Committee will engage appropriate executive search consultants for the search process for Non-Executive Directors. The search process is expected to identify candidates from a variety of backgrounds and perspectives who meet the requirements for the role and give due consideration to the benefits of diversity. The Board will only engage executive search consultants who have signed up to the voluntary code of conduct for executive search firms on gender diversity on corporate Boards.

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

Notwithstanding this, the Board is committed to ensuring that an appropriate mix of skills and experience is represented on the Board, in order to provide efficient stewardship.

The Board has taken note of the policies of companies within its international peer group.

The Board is committed to having female representation and, since its shares were admitted to the Premium segment of the London Stock Exchange, the Company has always had female representation on its Board.

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6.5. Human rights policy

In December the Board approved a Human Rights policy to be implemented across the group. The policy reflects the Group's longstanding respect for the rights of its employees and the individuals affected by its operations.

Polyus Gold International Limited and its subsidiaries (Polyus Gold) recognise that all companies have a responsibility to respect human rights when conducting business. Cognisant of the increasing recognition in the extractive industry of the rights of individuals, Polyus Gold is committed to observing human rights in the course of its business operations.

To this end, it supports the endorsement in 2011 of the UN Guiding Principles on Business and Human Rights and the rights contained in:

- the Universal Declaration on Human Rights;
- the International Covenant on Civil and Political Rights;
- the International Covenant on Economic, Social and Cultural Rights;
- the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and
- voluntary Principles on Security and Human Rights.

The policy outlines Polyus Gold's commitment to universal human rights. In particular, it recognises the rights of its employees to a safe and healthy working environment, to freedom from discrimination and freedom of association. Further, Polyus Gold acknowledges the customs and cultures of local communities in the areas in which we operate.

This policy is informed by, and should be read in conjunction with, Polyus Gold's Diversity and Anti-Corruption Policies.

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6.6. Dividend policy

Blagodatnoye. Inside of the plant.

The Company's dividend policy was approved by the Board at its meeting on 20 April 2012.

The Company aims to pay dividends amounting to a minimum of 20% of the Group's annual net profit, calculated in accordance with International Financial Reporting Standards (IFRS).

In developing its recommendations on the amount of dividends to be paid to shareholders annually, and the corresponding share of the net profit to be allocated to such dividend payments, the Board will take into account the need to balance funding of growth projects and the payment of dividends, including any limitations imposed by the production, investment and other financial needs of the Group, the Group's debt position and any tax legislation applicable to the Group.

Following the introduction of the Dividend policy, in 2013, the Company declared (i) a final dividend in the amount of USD 0.0824 per ordinary share and (ii) a special dividend in the amount of USD 0.0232 per ordinary share, both in respect of the financial year ended 31 December, 2012. The final dividend was paid on 7 June 2013 to those shareholders who appeared on the register of the Company at 18:00 hrs (UK time) on 24 May 2013.

6.7. Anti-corruption efforts

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

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

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

Members of the Board of Directors and senior executives of the Company are expected to observe high ethical standards and not tolerate any form or exercise of bribery and corruption from their peers, employees or contractors. The Board of Directors and Senior managers receive regular reports on, and hold investigations into, compliance with anti-corruption policies and legislation.

Since 2011, the Company has had an Anti-corruption policy in place across all of its business units and professional services arms. The Anti-corruption policy covers all of the prohibitions and restrictions established by the legislation of the countries where the Company operates, including Russian anti-corruption legislation and The Bribery Act 2010 of the United Kingdom.

The Company has established and applies internal anti-bribery procedures, which are based on the principles recommended by the Ministry of Justice of the United Kingdom. Procedures are regularly improved by the Company with due regard to any risks identified, updates to legislation and the recommendations of regulatory bodies. Specific tasks ensuring compliance with the anti-bribery procedures are distributed among the functional units of the Company.

The Company pays great attention to ensuring that employees are made familiar with the policy and other anti-corruption procedures and remain so, through regular briefings and training.

In 2013, all Company employees went through training, testing and certification on compliance with anti-corruption legislation and the execution of local Policies. In 2013, all employees signed a document committing themselves to complying with the requirements of anti-corruption legislation and local policies.

As necessary, compliance staff provide counselling to personnel and partners on all matters relating to the exercise of proper conduct in this area.

The Company exercises due diligence in its relations with third parties, partners and contractors, in order to minimise the risks of prohibited acts being committed for, or on behalf of, the Company. The Company conducts preliminary checks before approval of all contracts and project agreements and regularly inspects and monitors projects in higher-risk areas.

Accessible communication systems have been introduced to support whistleblowing and speak-up schemes, to report violations of current policies.

Responsible staff members have been appointed at the Corporate Headquarters and in all business units and professional service arms of the Company, forming local teams to ensure compliance with the established regulations and policies.

Company employees regularly participate in international conferences on combating corruption in the private and public sectors, to aid the development and implementation of the latest compliance strategies and best practices across the Company.

Throughout 2013, neither the Company, nor any employees or officers of the Company were involved in court proceedings in connection with corrupt practices.

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6.8. Senior management[1]

Name	Position	Date of appointment
Vyacheslav Dzyubenko	Deputy CEO for Internal Control	27 January 2014
Sergey Fedorov	First Deputy CEO	10 April 2013 (as Deputy CEO for Capital construction) and 1 October 2013 as First Deputy CEO
Alexey Golubenko	Head of Yakutia Kuranakh business unit, General Director of OJSC Aldanzoloto GRK	10 August 2011
Pavel Grachev	Interim CEO	27 November 2013
Konstantin Gusev	Deputy CEO for Supplies, Materials and Machinery	2 December 2013
Mikhail Gusev	Head of Magadan business unit, General Director of OJSC Matrosov Mine	30 October 2013
Oleg Ignatov	CFO	Appointed 8 August 2008, resigned 27 March 2014
Fyodor Kirsanov	General Director of OJSC Polyus Gold and CJSC Polyus	11 March 2013 (as Deputy CEO for Supplies, Materials and Machinery), 1 October 2013 (as 1st Deputy CEO) and 2 December 2013 (as General Director of OJSC Polyus Gold and CJSC Polyus)
Valery Konstantinov	Head of Irkutsk alluvial business unit, General Director of OJSC Lenzoloto and CJSC ZDK Lenzoloto	21 November 2011
Kyrill Martynov	Head of Krasnoyarsk business unit	18 July 2013
James Nieuwenhuys	COO	23 May 2011
Elena Romanova	HR Director	18 September 2013
Mikhail Stiskin	CFO	2 December 2013 (as Deputy CEO for Strategy and Corporate Development) and 27 March 2014 as CFO
Igor Tsukurov	Head of Irkutsk ore business unit, General Director of OJSC Pervenets	12 November 2012
Boris Zakharov	Deputy General Director for Engineering and Innovations	1 November 2008
Sergey Zhuravlev	Deputy CEO for Government relations	3 March 2014

[1] The definition of a Senior manager is in line with para 6.69 of the FRC guidance, and is wider than the definition of Key Management Personnel (KMP) in IAS 24 "Related Party Disclosures" and IFRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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6.9. Audit Committee report

Membership

Current members

- Kobus Moolman, Independent Non-Executive Director and Chairman of the Audit Committee;
- Adrian Coates, Independent Non-Executive Director and Senior Independent Director, and
- Edward Dowling, Independent Non-Executive Director[1].

Former members

- Lord Clanwilliam, Independent Non-Executive Director[2].

The Board believes that the current composition of the Audit Committee has the required level of experience to be sufficient to meet the standards imposed by the UK Corporate Governance Code. In the event that any issues should arise which would be deemed outside the areas of expertise of the members, independent professional advice would be sought.

Key objectives

- To provide effective governance over the Group's financial reporting and the adequacy of reporting, and
- To effectively oversee the performance of both the internal audit team and the work of the external auditor.

Committee responsibilities

A description of the Committee's role and responsibilities is available on the Company website www.polyusgold.com/company/corporate_governance/audit_committee/.

Meetings and discussions

The Audit Committee met seven times over the course of the financial year. The Committee's agenda is linked to events in the Group's financial calendar and is predominantly cyclical, although each member has the right to call for reports on matters of interest.

Please refer to section 6.3 "Board of Directors composition" of this Annual report for details of members' attendance at Committee meetings.

[1] Appointed to the Committee on 13 November 2013.
[2] Resigned from the Committee on 13 November 2013.

Review of the Committee's work

The Audit Committee met with management, internal and external auditors to ensure that management was fulfilling its financial reporting responsibilities to the Directors, who approve the consolidated financial statements. The Company's external auditors had unrestricted access to the Audit Committee to discuss the scope of their audit and the adequacy of internal controls, and to review financial reporting issues.

Financial reporting and compliance

The Committee's business included the review and approval of financial statements for the FY2012 and H12013; review and approval of the Annual report and interim management report for the FY2012 and H12013; approval of the auditor's fees for 2013; review and approval of the annual budget for 2014; monitoring of the external audit and audit timetable for 2013; appointment of the external auditor and, in conjunction with the Risk Committee, monitoring of internal audit and risk management systems.

Risk management and internal control

The Board has established a continuous process for identifying, evaluating and managing the significant risks the group faces and for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report. The Board is also responsible for the group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision C.2.1 of the UK Corporate Governance Code, the Board regularly reviews the effectiveness of the group's risk management and internal control systems. The Board's monitoring covers all material controls, including financial, operational and compliance controls. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific assessment for the purpose of this Annual report. This assessment considers all significant aspects of risk management and internal control arising during the period covered by the report including the work of internal audit. The audit and risk committees assist the board in discharging its review responsibilities.

The Audit Committee investigated a range of issues, which in their opinion, and that of their external auditors, posed a risk of adverse impact on Group financial statements. A Financial risk management policy developed in 2011, and the principles of a Treasury policy are formally described in other policies and documents of the Company.

Following the decline in the gold price, the Committee investigated impairment of PP&E, capital construction-in-progress and exploration assets across the business, seeking assurances that the impairment tests used, met the requirements of IAS 36 (Impairment of Assets). In particular, management were tasked with performing comprehensive impairment reviews at the Verninskoye mine, the Kuranakh mine and Natalka project, and examining possible impairment of exploration and evaluation assets (E&E), capital construction-in-progress and stockpiles at Nezhdaninskoye, Chertovo Koryto, Poputninskoye, Panimbinskoye, Bamskoye and some other smaller deposits. As a result, the Company recognised impairment charges of USD 472 million in 2013 (please refer to section 2.8 “Financial review”, for more information on impairments).

Inventory is required to be carried at the lower of its cost and net realisable value. The measurement and valuation of gold in circuit and stockpiles included in inventory, and their net realisable values is complex, involves judgement and is based on assumptions about gold content and future processing costs.

During the course of its review of the risk management and internal control systems, the Board and the Audit and Risk Committees have not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Anti-corruption policy

A comprehensive anti-corruption policy has been introduced and the Company’s external auditor has been tasked with examining any related-party transactions to ensure that business was conducted ‘at arms length’.

Internal audit

Among the Committee’s key responsibilities are the monitoring of the effectiveness of the Group’s internal audit function and approving its head, approving the annual internal audit plan and reviewing reports presented by the internal auditor. The Internal audit plan was approved by the Committee on 20 March 2013. The Audit Committee met with the head of internal audit on a regular basis to discuss the department’s remit. The Audit Committee received internal auditor reports on a quarterly basis. The Committee assesses the effectiveness of the internal audit as satisfactory.

External auditors

Deloitte LLP who have been appointed as an auditor since admission to premium listing in 2012 provide the Committee with relevant reports following the audit and review results, reviews, information and advice throughout the year as set out in their engagement letter. Their performance, as well as independence, has been formally assessed by the Committee having due regard to their expertise, resourcing and experience. The Committee performs an assessment of the timing of the audit, significant key risk areas covered and procedures performed to get the audit assurance. The Committee also interacts with the management to receive its views and opinions on the work done by its auditors’, in particular, through an anonymous questionnaire. The Committee remains satisfied of their effectiveness. There are no contractual obligations restricting the Committee’s choice of external auditors and the Committee did not consider it necessary this year to conduct a tender process for the appointment of its auditors.

In accordance with UK regulations, Deloitte LLP adhere to a strict partner rotation policy based on the mandatory requirements of Auditing Practices Board Ethical Standard 3. The Committee monitors this rotation and confirms that a new lead audit partner will be subject for reappointment following the completion of the 2015 audit. The Committee is aware of the recommendations set out by the FRC in the updated UK Governance Code in relation to audit tendering, which states that companies should put the external audit contract out to tender at least every ten years.

The Committee recognise that as with any complex operation there is always a risk of fraud and false accounting and it seeks to minimise this risk by flagging its concerns with both its internal and external auditors and seeking to ensure that appropriate tests and audit procedures are used.

There is a non-audit service policy in place, approved by the Audit Committee where it is clearly stated that any work related to the "Unacceptable non-audit services" need to be discussed and pre-approved, if applicable, by the Audit Committee, irrespective of any amount. Engagements that fall within the Audit Services classification of services, as set out above, are considered to be pre-approved by the Audit Committee to a level of USD 250,000. Audit Services engagements with expected fees in excess of this amount should be approved by the Audit Committee.

Non-audit services expenditure over USD 250,000 per engagement or USD 750,000 in aggregate requires approval by the Audit Committee. Where fees for non-audit services in the year exceed USD 750,000 in aggregate, all permitted engagements may only be awarded to the statutory auditor with prior approval of the Audit Committee before commencement of the work.

Discharge of responsibilities

According to provision C.3.8 of the UK Corporate Governance Code, the Audit Committee reports on how it discharges its responsibilities on the significant issues reviewed by the Committee.

In order to discharge its responsibilities, the Audit Committee invites the CFO, as well as other executive managers and external consultants, to attend meetings. The Audit Committee discharges financial and corporate reporting, internal audit and control, budgeting and planning to the management and independent assurance and audit to the external auditor.

Audit Committee statement

Having discussed information received from the management, auditors and consultants, the Audit Committee believes that the Company's procedures and financial records can be relied upon for the preparation of the annual financial statements.

The Audit Committee considers that the Annual report is in compliance with the FSA disclosure and transparency rules. The Audit Committee considers that the annual financial statements are in compliance with IFRS.

The Audit Committee has therefore recommended to the Board of Directors that the Annual report be approved.

Approved by the Audit Committee and signed on its behalf by

Kobus Moolman
Chairman of the Audit Committee
London, 24 March 2014

6.10. Risk Committee report

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Membership

Current members

- Adrian Coates, Independent Non-Executive Director, Chairman of the Risk Committee;
- Anna Kolonchina, Non-Executive Director;
- Kobus Moolman, Independent Non-Executive Director
- Igor Gorin, Non-Executive Director[1], and
- Edward Dowling, Independent Non-Executive Director[2].

Former members

- Lord Clanwilliam, Independent Non-Executive Director[3].

Key objectives

- To ensure effective oversight of business risks and their mitigation and to monitor internal control procedures and processes and related compliance activities.

Committee responsibilities

A description of the Committee's role and responsibilities is available on the Company website www.polyusgold.com/company/corporate_governance/risk_committee/.

Meetings and discussions

Please refer to section 6.3 "Board of Directors composition" for information on attendance at the Committee.

Review of the Committee's work

The Committee continued with its ongoing work of the regular analysis of the company-wide Risk Management System, quarterly review of the Production Risk Management Report, oversight of internal risk management and its ongoing monitoring of world gold prices. This year the Committee additionally focused on ongoing data security and disaster recovery efforts and work to secure ISO2301 certification, developments at the Natalka project and efforts to secure reliable power supplies for its processing facilities.

The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties, to obtain, at the Group's expense, outside legal or other professional advice on any matter within its terms of reference, and to call any employee to be questioned at a meeting of the Committee, as and when required. In the discharge of its duty to oversee the internal audit process, the Committee is assisted by the Audit Committee.

Risk management

The Risk Committee reviews and commissions management reports on strategic business risks[4]. The Committee also reviews the Production Risk management reports on current production risks on a quarterly basis, which include a factor analysis of current risks, information about changes to the most significant technical and production risks and the status of programmes aimed at mitigating these risks. Additionally, information on accidents and technical failures recorded at the Company's operations are provided to the Committee.

Disaster recovery

At its meetings the Committee reviewed the issues of database information security and a disaster recovery plan raised by the IT unit, aimed at ensuring uninterrupted operation of the corporate headquarters and regional offices, in the event of adverse events (network failure, unexpected power loss, cyber-attack, failure of key server equipment due to fires and other accidents). The Committee considered that implementation of these measures had been satisfactorily undertaken.

Business continuity

In early 2013 the Risk Committee approved the engagement of external consultants to implement Business continuity management[5] at individual business units and the corporate headquarters. During the year, under the supervision of the Internal Control Unit and of the Operating Unit, work has been carried out to bring the existing system into compliance with the new ISO2301 international standard. The results of this ongoing work were reviewed by the Committee and its recommended changes will be implemented in the first half of 2014.

[1] Appointed to the Committee on 26 April 2013.
[2] Appointed to the Committee on 4 October 2013.
[3] Appointed to the Committee on 26 April 2013, resigned from the Committee on 4 October 2013.
[4] Provision in accordance with Enterprise Risk Management (ERM) adopted in compliance with ISO31000 Risk management – Principles and guidelines.
[5] Adopted in compliance with ISO22301:2012 Business Continuity Management.

World gold prices

World gold prices fell substantially during the year. The Committee commissioned from management a series of financial and operational mitigation options to deal with further possible gold price falls. The Committee discussed the possible use of hedging instruments to protect the Company's cash flow. The Committee approved the development and adoption of procedures authorising limited hedge transactions using gold produced at the Kuranakh mine, the Company's highest cost mine. In the event, such hedge transactions were not implemented during 2013.

The Natalka project

The Board, Company management and the Committee have placed a special focus on developments at the Natalka project. Management Consultants, McKinsey, had previously helped to create a register of project risks and measures for their monitoring and mitigation, and assisted with the indication of timelines and responsible persons. McKinsey were therefore engaged to monitor the implementation of the project. Throughout the year, at its meetings, the Committee discussed the status of the project and examined reports on the management of risks associated with the organisation of preparation and development of the mine. A major risk at the Natalka project is securing the provision of stable power supply, as the Natalka project is located far from the generating plants. The Committee reviewed measures aimed both at mitigating energy risks for the Natalka project and ensuring guaranteed commissioning of power lines as well as obtaining the necessary permits and approvals. The Committees' work fed directly into the decision to re-sequence the development plan of the Natalka project.

A more comprehensive review of the individual risks faced is included in section 2.5 "Principal risks and uncertainties", along with measures taken by the Company to mitigate these risks.

Despite the Company's efforts to mitigate risk throughout its operations, the Committee remains mindful of the fact that mining activities in remote locations and in extreme weather conditions will continue to pose significant risks and that these risks are compounded by political and regulatory risks and a volatile world market for gold. The Committee will continue its close monitoring of the situation in the year to come.

Adrian Coates
Chairman of the Risk Committee
London, 24 March 2014

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6.11. Nomination Committee report

Membership

Current members

- Ilya Yuzhanov, Independent Non-Executive Director and Chairman of the Nomination Committee[1];
- Bruce Buck, Independent Non-Executive Director;
- Adrian Coates, Independent Non-Executive Director and Senior Independent Director;
- Pavel Grachev, Non-Executive Director[2], and
- Edward Dowling, Independent Non-Executive Director[3].

Former members

- Robert Buchan, Independent Non-Executive Director and Chairman of the Nomination Committee[4], and
- Lord Clanwilliam, Independent Non-Executive Director[5].

Key objectives

- To ensure that Board has an appropriate mix of knowledge, skills, experience and diversity to enable it to effectively discharge its responsibilities;
- to give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- to be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise, and
- to recommend to the Board the membership and chairmanship of the Audit, Nomination, Remuneration, Risk and Health, Safety and Environment Committees.

Committee responsibilities

A description of the Committee's role, terms of reference and responsibilities is available on the Company website (www.polyusgold.com/company/corporate_governance/nomination_committee/).

Meetings and discussions

Please refer to section 6.3 "Board of Directors composition", for information on attendance at the Committee.

Review of the Committee's work

The Committee met formally four times and informally in person or via conference call on approximately ten additional occasions and considered new appointments to the Board and a new CEO, developed a comprehensive diversity policy and conducted an internal review of Board performance, including individual evaluations of Board members.

Following the announcement by Robert Buchan, that he intended to step down as Chairman of the Board, the Committee evaluated the balance of skills, knowledge, experience and diversity on the Board and prepared a detailed person specification for an independent executive search consultancy. Heidrick and Struggles, a search firm, which has no other connection with the Company, were engaged to help find suitable candidates.

The Nominations Committee held a number of joint meetings with the Remuneration Committee to gauge overall progress and to participate in specific conversations with selected candidates, and, in October, made a recommendation to the Board that it appoint Ilya Yuzhanov as Chairman of the Board and Chairman of the Nominations Committee. Ilya Yuzhanov has significant experience in non-executive positions in various mining companies and is additionally a member of the Supervisory Board of the Association of Independent Directors of Russia. At the same meeting, the Committee also recommended that Edward Dowling be appointed as an Independent Non-Executive Director of the Company and as a member of the Health, Safety and Environment and Risk Committees. Later, the Committee recommended that Edward Dowling be appointed as a member of the Audit Committee and the Nomination Committee.

[1] Appointed to the Committee on 4 October 2013.
[2] Appointed to the Committee on 13 November 2013.
[3] Appointed to the Committee on 13 November 2013.
[4] Resigned from the Committee on 31 May 2013.
[5] Resigned from the Committee on 13 November 2013.

At its November meeting, the Committee recommended that Pavel Grachev be appointed to the Board as a Non-Executive Director. Later in November, upon the resignation of German Pikhoya as Director and CEO, Pavel Grachev was appointed as Interim CEO of the Company to serve in that position until a new permanent CEO is appointed. During 2013 the Committee initiated an intensive search to recruit a new Chief Executive Officer.

The Committee instituted a comprehensive compliance programme, requiring detailed information gathering and background checks for all candidates. Every new member of the Board is informed of all premium listing disclosure requirements and the necessity to disclose related-party information and undergoes training sessions.

Recognising that diversity is an essential component of successful corporate governance, the Board developed and approved a comprehensive diversity policy, which encompasses among other things, diversity of perspective, experience, skills, background, knowledge, international experience and gender. The policy suggests criteria for determining the optimum composition of the Board and procedures to ensure that appointments are made on the basis of merit. For a detailed description of the Diversity policy, see section 6.4 "Diversity policy".

As part of its ongoing commitment to ensuring that the Company is effectively and efficiently governed, the Committee undertook a performance review of the Board and its Committees. Each member of the Board was asked to complete a detailed questionnaire, which asked them to grade the performance of the Board and its Committees, the effectiveness of Executive and Non-Executive Directors, leadership and culture and the monitoring of operational performance and corporate governance. Following an evaluation of the evidence, the Committee concluded that the Board and its Committees remain effective and that each Director continues to make an effective contribution.

In the coming year, the Committee will continue to assess potential enhancements to the Board and its Committees, and monitor relevant developments in corporate governance with emphasis on development and succession planning for Senior management, providing updates and training for Directors and facilitating an external review of the Board's performance.

Ilya Yuzhanov
Chairman of the Nomination Committee
London, 24 March 2014

6.12. Health, Safety Environment and Community Committee report

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Membership

Current members

- Edward Dowling, Independent Non-Executive Director, Chairman of the Committee[1];
- Bruce Buck, Independent Non-Executive Director, Chairman of the Committee[2], and
- Igor Gorin, Non-Executive Director[3].

Former members

- Lord Clanwilliam, Independent Non-Executive Director[4];
- German Pikhoya, Chief Executive Officer[5].

Key objectives

- To provide effective governance over the Group's policies and procedures in health, safety, the environment, community and human rights issues, and
- to promote best practice and encourage a positive approach across the Company's operations.

Committee responsibilities

A description of the Committee's role and responsibilities is available on the Company website (www.polyusgold.com/company/corporate_governance/environment_and_community/).

Meetings and discussions

Please refer to section 6.3 "Board of Directors composition" for information on attendance at the Committee.

Review of the Committee's work

In addition to its watchdog role, this year the Committee has overseen major developments in each of the areas within its remit, including new health and safety, environmental and sustainability initiatives. In discharging its responsibilities the Committee works closely with the other Board Committees, particularly in the areas of risk assessment and management.

The Committee arranges for periodic reviews of its own performance and, at least annually, reviews its constitution and terms of reference to ensure that it is operating effectively and recommends any changes it considers necessary to the Board for approval.

Health and safety

In 2013, regrettably, the Company reported three fatalities (compared with six in 2012). Following an independent third-party health and safety audit conducted at the alluvial operations in the Irkutsk region, where these three fatalities took place, a comprehensive health and safety action plan was developed to be rolled out at the start of the production season in spring 2014.

[1] Resigned as Chairman on 4 October 2013. Remains a Committee member.
[2] Appointed to the Committee on 4 October 2013.
[3] Appointed to the Committee on 13 November 2013.
[4] Resigned from the Committee on 4 October 2013.
[5] Resigned from the Committee on 27 November 2013.

During the reporting year, the Group's lost time injury frequency rate was 0.11, a 39% decrease from 0.18 in 2012. Despite this progress, the Committee remains resolute on all workplace accidents.

The Committee oversaw the introduction of new Medical Emergency Response and Occupational Health standards, which were implemented across the Polyus Group during the year. The Committee will keep the system under review during 2014. Additionally, the Committee reviewed and approved the Polyus Gold 2013–2015 Health and Safety Road Map, which sets out new standards and goals for the coming two years.

The safety of the Company's employees and stakeholders is of paramount importance to the Board and to that end the Committee, along with all other Board members, took part in the DuPont Safety Leadership training programme on 13 December 2013. Further, the Committee approved the implementation of the second stage of the DuPont Safety Leadership training programme at the Krasnoyarsk and Magadan business units in 2014.

The Committee undertook a quarterly review of management's response to the most serious health and safety incidents. The newly introduced procedures for incident root cause analysis, which were implemented across the Polyus Gold group, will prove an invaluable tool in investigating and mitigating such incidents in the future.

Environment and community

The Committee reviewed and approved the 2012 Sustainability report. Further, the Global Reporting Initiative, a leading sustainability body, rated the report A+ in an Application Level Check. The Committee additionally monitored the Group's progress against its road map to membership of the International Council on Mining and Metals, an industry body, founded in 2001 to improve sustainable development performance in the mining and metals industry.

The Human Rights policy was reviewed and approved by the Committee and subsequently approved by the Board on 13 December 2013, and the Stakeholder Engagement policy was examined by the Committee and signed-off by the Committee Chairman. The policy sets new standards and parameters for the Company's work with the local communities affected by the Group's operations.

Please refer to section 3 "Sustainability report" for more information on the Group's activities in this area.

Edward Dowling
Chairman of the HSEC Committee
London, 24 March 2014

Republic of Sakha (Yakutia)
The UNESCO listed Lena Pillars, rising as high as
300 metres, run alongside the Lena river for almost 100 km.

Financial statements

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7. Financial statements

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7.1. Directors' responsibility statement

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, set out at pages 152-157, is made with a view to distinguish the responsibilities of the Board of Directors and those of the independent auditors in relation to the consolidated financial statements of Polyus Gold International Limited.

The Directors are responsible for preparing the Annual report and the consolidated financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year.

The Board of Directors is required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union. Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Group for that period.

In preparing the consolidated financial statements, International Accounting Standard 1 requires that the Board of Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- make an assessment of the Group's ability to continue as a going concern.

The Board of Directors is also responsible for:

- maintaining proper and adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group and enable them to ensure that the consolidated financial statements of the Group comply with the Companies (Jersey) Law 1991;
- safeguarding the assets of the Group;
- taking reasonable steps for the preventing and detecting fraud and other irregularities;
- maintaining the integrity of the corporate and financial information included on the Group's website.

Legislation in the United Kingdom and Jersey governing the preparation and dissemination of consolidated financial statements may differ from legislation in other jurisdictions.

Responsibility Statement

We confirm that to the best of our knowledge:

- the consolidated financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face;
- the Annual report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The consolidated financial statements of the Group for the year ended 31 December 2013 were approved on 24 March 2014 by the Board of Directors.

On behalf of the Board of Directors:

Pavel Grachev
Interim Chief Executive Officer
London, 24 March 2014

7.2. Independent auditor’s report

Independent auditor’s report to the members of Polyus Gold International Limited

Opinion on consolidated financial statements of Polyus Gold International Limited	**In our opinion the consolidated financial statements:** • give a true and fair view of the state of the Group’s affairs as at 31 December 2013 and of the Group’s profit for the year then ended; • have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and • have been prepared in accordance with the Companies (Jersey) Law 1991. The consolidated financial statements comprise the consolidated Income Statement, consolidated Statement of Comprehensive Income, consolidated Statement of Financial Position, consolidated Statement of Changes in Equity, consolidated Statement of Cash flows and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.
Going concern	**We have reviewed the directors’ statement on page 53 that the group is a going concern. We confirm that:** • we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate; and • we have not identified any material uncertainties that may cast significant doubt on the group’s ability to continue as a going concern. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group’s ability to continue as a going concern.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Potential impairment of fixed assets In a reducing gold price environment there is a risk that the carrying value of the mining assets, capital construction in progress and mine under development described in notes 15, 16 and 17 to the consolidated financial statements may not be recoverable. Management performed impairment tests on the Kuranakh mines within the Yakutia Kuranakh business unit, the Verninskoye mine within the Irkutsk Ore business unit and, following the recently announced re-sequencing, at the Natalka mine under development within the Magadan business unit.	We challenged management's significant assumptions by: • comparing foreign exchange rates and the long term gold prices assumed to external forecasts; • assessed the discount rates used by recalculation and comparison to other gold producers; • holding discussions with operational management to understand and evaluate the details of the capital expenditure phasing at Natalka and the forecast spend on the planned flow increases; and • using our internal mining specialists, VenmynDeloitte, to perform a high level review of the mine plans of both Natalka and Verninskoye including the operating expenditure in comparison to similar operations and the consistency of the discounted cash flows with the respective life of mine plans and the declared ore reserves.
Potential impairment of exploration and evaluation (E&E) assets The Group capitalises E&E expenditure in line with IFRS 6: Exploration for and Evaluation of Mineral Resources. The assessment of each asset's future prospectivity requires significant judgement. There is a risk that amounts are capitalised which no longer meet the recognition criteria of IFRS 6. Management has performed a review of the E&E portfolio of assets as set out in note 18 to the consolidated financial statements and, following the decline in the gold price during the year, recorded a significant impairment, as several of these were no longer likely to be progressed to development.	We: • held discussions with key operational and finance staff to understand the exploration and appraisal activities; • reviewed and evaluated management's assessment of the existence of impairment indicators in the portfolio of E&E assets as set out in note 18 to the consolidated financial statements by assessing the appropriateness of management's assumptions and estimates; • reviewed the exploration licence conditions for any potential breaches; and • reviewed management's approved exploration budgets for 2014 in order to check that exploration projects were ongoing and committed; • where an E&E asset has been impaired we have challenged management on the events that led to the impairment,and the judgements surrounding the recoverability of the carrying values.
Measurement and valuation of inventory Inventory, as set out in note 20 to the consolidated financial statements, is required to be carried at the lower of its cost and net realisable value. The measurement and valuation of gold in circuit and ore stockpiles included in inventory and their net realisable value is complex, involves judgement and is based on assumptions about gold content and future processing costs. There is also a risk of obsolescence of stores and spares.	We: • evaluated the assumptions and judgements used in management's assessment of the net realisable value of ore stockpiles, including specifically comparing future gold price assumptions to external data and running sensitivities to assess the key judgements; • analysed movements of the gold in circuit on a stage-by-stage basis and confirmed through discussions with operational management that the movements are in line with changes in operations; • assessed management's inventory costing calculations to confirm that it is measured in accordance with IAS 2 – Inventories; • attended inventory counts at the Krasnoyarsk, Irkutsk Alluvial and Irkutsk Ore business units; and • reviewed the analysis of stores and spares throughput.

The Audit Committee's consideration of these risks is set out on page 140.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be USD 30 million, which is approximately 5% of the Group's profit before impairment charges of USD 472 million and tax, and below 1% of equity. Impairment charges have been added back because, if included, they would significantly distort the materiality assessment year on year.

Lower materiality levels of between USD 15 million and USD 24 million have been applied for the component audits.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of USD 600,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Based on that assessment, our Group audit scope focused primarily on the Krasnoyarsk and Irkutsk Alluvial business units which were subject to a full scope audit, and the Magadan and Capital construction business units, where we performed a full audit of capital construction in progress (CCIP) and mine under development additions.

This has given us coverage of 84% of the Group's revenue, 86% of the Group's production, 99% of the group's operating profit before impairment charges, 86% of the Group's fixed assets, and 94% of the Group's CCIP and mine under development additions.

In addition, other business units (Irkutsk ore, Yakutia Kuranakh and Exploration), were subject to specified audit procedures to address the risks of material misstatement identified above.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit or audit of specified account balances.

The Group audit engagement team also performed site visits such that the Group audit partner or his designate visited the Olimpiada, Blagodatnoye, Titimukhta, Natalka and Verninskoye mine sites and the headquarter office in Moscow. At the direction of the Group audit team the component audit team in Russia also visited the Krasnoyarsk, Irkutsk Alluvial, Irkutsk Ore and Magadan business units during the year.

Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records	Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or • the consolidated financial statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
Corporate Governance Statement	Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.
Our duty to read other information in the Annual report	Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual report is: • materially inconsistent with the information in the audited consolidated financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual report is fair, balanced and understandable and whether the Annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Other matter – Directors' remuneration	In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.
Respective responsibilities of Directors and Auditor	As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews. This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the consolidated financial statements	An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: • whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; • the reasonableness of significant accounting estimates made by the Directors; and • the overall presentation of the consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Douglas King, FCA
for and on behalf of Deloitte LLP
Chartered Accountants and Recognized Auditor
London, United Kingdom
24 March 2014

7.3. Consolidated financial statements

in accordance with the IFRS for the year ended 31 December 2013

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Consolidated income statement for the year ended 31 December

(in thousands of US Dollars, except for earnings per share data)

	Notes	2013	2012[1]
Continuing operations			
Gold sales	7	2,258,599	2,618,024
Other sales		70,316	61,889
Total revenue		**2,328,915**	**2,679,913**
Cost of gold sales	8	(1,346,523)	(1,265,306)
Cost of other sales		(47,042)	(43,832)
Gross profit		**935,350**	**1,370,775**
Gain on disposal of subsidiaries	5.3	–	6,268
Selling, general and administrative expenses	9	(225,795)	(255,705)
Other (expenses) / income, net	10	(13,528)	12,184
Impairment losses	11	(471,657)	(15,424)
Research expenses		(2,499)	(2,079)
Gain on loan settlement		–	79,084
Operating profit		**221,871**	**1,195,103**
Finance costs	12	(13,878)	(31,573)
Income from investments, net	13	21,348	35,960
Foreign exchange gain		4,348	12,026
Profit from continuing operations before income tax		**233,689**	**1,211,516**
Income tax expense	14	(90,688)	(246,412)
Profit from continuing operations		**143,001**	**965,104**
Profit from discontinued operations	5.1	6,374	15,422
Profit for the year		**149,375**	**980,526**
Profit for the year from continuing operations attributable to:			
Shareholders of the Company		133,860	922,066
Non-controlling interests		9,141	43,038
		143,001	**965,104**
Profit / (loss) for the year from discontinued operations attributable to:			
Shareholders of the Company		6,414	7,613
Non-controlling interests		(40)	7,809
		6,374	**15,422**
Weighted average number of ordinary shares in issue during the year (‘000s)		3,032,150	2,950,916
Earnings per share (US Cents) from continuing operations, basic and diluted[2]		4	31
Earnings per share (US Cents) from discontinued operations, basic and diluted[2]		0	0

[1] The comparative information for the year ended 31 December 2012 reflects adjustments made in connection with the presentation of the effect of discontinued operations following the sale of operating subsidiaries in Kazakhstan and Kyrgyzstan (note 5).

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

Consolidated statement of comprehensive income for the year ended 31 December

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(in thousands of US Dollars)

	2013	2012[1]
Profit for the year	**149,375**	**980,526**
Items that may be reclassified subsequently or already reclassified to profit or loss:		
Loss from change in fair value of available-for-sale investments	–	(3,976)
Losses recycled to profit or loss on disposal of available-for-sale investments	–	(581)
	–	**(4,557)**
Items that will not be reclassified subsequently through profit or loss:		
Effect of translation to presentation currency	(318,998)	200,568
Other comprehensive (loss) / income for the year	**(318,998)**	**196,011**
Total comprehensive (loss) / income for the year	**(169,623)**	**1,176,537**
Total comprehensive (loss) / income for the year from continuing operations attributable to:		
Shareholders of the Company	(184,774)	1,100,576
Non-controlling interests	8,777	60,539
	(175,997)	**1,161,115**
Total comprehensive income / (loss) for the year from discontinued operations attributable to:		
Shareholders of the Company	6,414	7,613
Non-controlling interests	(40)	7,809
	6,374	**15,422**

[1] The comparative information for the year ended 31 December 2012 reflects adjustments made in connection with the presentation of the effect of discontinued operations following the sale of operating subsidiaries in Kazakhstan and Kyrgyzstan (note 5).

Consolidated statement of financial position at 31 December

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(in thousands of US Dollars)

	Notes	2013	2012
Assets			
Non-current assets			
Property, plant and equipment[1]	15	1,505,649	1,801,780
Capital construction-in-progress[1]	16	277,950	363,025
Mine under development[1]	17	1,574,261	623,568
Exploration and evaluation assets[1]	18	174,586	518,810
Investments in securities and other financial assets	19	1,765	16,034
Inventories	20	294,912	242,005
		3,829,123	**3,565,222**
Current assets			
Investments in securities and other financial assets	19	48,233	78,360
Inventories	20	702,115	659,480
Deferred expenditures	21	16,330	19,090
Trade and other receivables	22	27,440	45,369
Advances paid to suppliers and prepaid expenses		27,701	40,619
Taxes receivable	23	249,724	220,835
Cash and cash equivalents	24	808,675	959,932
		1,880,218	**2,023,685**
Total assets		**5,709,341**	**5,588,907**
Equity and liabilities			
Capital and reserves			
Share capital	25	482	482
Additional paid-in capital	25	2,151,765	2,151,765
Translation reserve		(395,318)	(76,684)
Retained earnings		1,922,264	2,110,869
Equity attributable to shareholders of the Company		**3,679,193**	**4,186,432**
Non-controlling interests		275,279	282,645
		3,954,472	**4,469,077**
Non-current liabilities			
Site restoration and environmental obligations	26	68,546	119,150
Borrowings	27	936,893	160,792
Deferred tax liabilities	28	134,416	208,998
Other non-current liabilities		32,969	25,695
		1,172,824	**514,635**
Current liabilities			
Borrowings	27	268,693	187,555
Trade, other payables and accrued expenses	29	260,377	289,846
Taxes payable	30	52,975	127,794
		582,045	**605,195**
Total liabilities		**1,754,869**	**1,119,830**
Total equity and liabilities		**5,709,341**	**5,588,907**

[1] The carrying values of Property, plant and equipment, Capital construction-in-progress, Mine under development and Exploration and evaluation assets as of 31 December 2012 have been re-presented in these consolidated financial statements to provide for enhanced disclosure of long-lived physical assets by type and nature of use. For details, refer to note 2.

Consolidated statement of changes in equity for the year ended 31 December

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(in thousands of US Dollars)

	Notes	Number of outstanding shares, (thousands)	Equity attributable to shareholders of the Company		
			Share capital	Additional paid-in capital	Treasury shares
Balance at 31 December 2011		**2,805,190**	**482**	**2,189,240**	**(765,013)**
Profit for the year		-	-	-	-
Other comprehensive (loss) / income		-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**
Sale of treasury shares		226,960	-	-	727,538
Transfer of balance relating to call option		-	-	(37,475)	37,475
Dividends declared to shareholders of the Company	25	-	-	-	-
Dividends declared to non-controlling interests		-	-	-	-
Balance at 31 December 2012		**3,032,150**	**482**	**2,151,765**	**-**
Profit for the year		-	-	-	-
Other comprehensive loss		-	-	-	-
Total comprehensive income		**-**	**-**	**-**	**-**
Effect of disposal of subsidiaries	5.2	-	-	-	-
Dividends declared to shareholders of the Company	25	-	-	-	-
Dividends declared to non-controlling interests		-	-	-	-
Balance at 31 December 2013		**3,032,150**	**482**	**2,151,765**	-

	Equity attributable to shareholders of the Company					
	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
	4,557	(259,751)	1,438,992	2,608,507	236,029	2,844,536
	-	-	929,679	929,679	50,847	980,526
	(4,557)	183,067	-	178,510	17,501	196,011
	(4,557)	183,067	929,679	1,108,189	68,348	1,176,537
	-	-	(133,484)	594,054	30,318	624,372
	-	-	-	-	-	-
	-	-	(124,318)	(124,318)	-	(124,318)
	-	-	-	-	(52,050)	(52,050)
	-	(76,684)	2,110,869	4,186,432	282,645	4,469,077
	-	-	140,274	140,274	9,101	149,375
	-	(318,634)	-	(318,634)	(364)	(318,998)
	-	(318,634)	140,274	(178,360)	8,737	(169,623)
	-	-	(8,684)	(8,684)	8,684	-
	-	-	(320,195)	(320,195)	-	(320,195)
	-	-	-	-	(24,787)	(24,787)
	-	(395,318)	1,922,264	3,679,193	275,279	3,954,472

Consolidated statement of cash flows for the year ended 31 December

(in thousands of US Dollars)

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	Notes	2013	2012
Profit from continuing operations before income tax		**233,689**	**1,211,516**
Adjustments for:			
Gain from disposal of subsidiaries	5.3	-	(6,268)
Impairment losses	11	471,657	15,424
Finance costs	12	13,878	31,573
Income from investments	13	(21,348)	(35,960)
Amortisation and depreciation	15	213,834	175,115
Gain on loan settlement		-	(79,084)
Foreign exchange gain, net		(4,348)	(12,026)
Other		2,210	37,498
		909,572	**1,337,788**
Movements in working capital			
Inventories		(245,862)	(99,159)
Deferred expenditures		1,425	521
Trade and other receivables		11,563	(19,591)
Advances paid to suppliers and prepaid expenses		(6,086)	(6,480)
Taxes receivable		(32,255)	(76,177)
Trade and other payables and accrued expenses		16,057	(3,823)
Other non-current liabilities		8,991	4,044
Taxes payable		(36,981)	17,701
Cash flows from operations		**626,424**	**1,154,824**
Interest paid		(32,271)	(27,613)
Income tax paid		(174,527)	(191,844)
Net cash generated from continuing operations		419,626	935,367
Net cash generated from discontinued operations		2,713	56,402
Net cash generated from operating activities		**422,339**	**991,769**

	Notes	2013	2012
Investing activities			
Proceeds from subsidiaries' disposal, net of cash disposed (USD 6,083 thousand of cash disposed during 2013; 2012: USD 1,258 thousand)	5.2, 5.3	291,199	20,973
Purchases of capital construction-in-progress, exploration and evaluation assets and assets for mine under development		(1,347,217)	(713,089)
Payments for stripping activity asset		(37,075)	(81,802)
Interest received		31,036	35,942
Increase in bank deposits		(147,485)	(58,265)
Proceeds from redemption of bank deposits and sale of investments		185,995	26,066
Other		3,660	2,692
Proceeds from termination of sale and purchase agreement		-	40,647
Net cash utilised in continuing operations		(1,019,887)	(726,836)
Net cash utilised in discontinued operations		(3,494)	(36,953)
Net cash utilised in investing activities		**(1,023,381)**	**(763,789)**
Financing activities			
Dividends paid to shareholders of the Company	25	(320,195)	(124,318)
Dividends paid to non-controlling interests		(42,967)	(47,547)
Proceeds from borrowings		1,092,617	273,467
Repayment of borrowings		(236,233)	(674,542)
Proceeds from sale of treasury shares		-	624,372
Net cash generated from continuing operations		493,222	51,432
Net cash utilised in discontinued operations		-	(15,460)
Net cash generated from financing activities		**493,222**	**35,972**
Net (decrease) / increase in cash and cash equivalents		**(107,820)**	**263,952**
Cash and cash equivalents at beginning of the year	24	**959,932**	**657,448**
Effect of foreign exchange rate changes on cash and cash equivalents		(43,437)	38,532
Cash and cash equivalents at end of the year	24	**808,675**	**959,932**

1. General

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

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

The principal activities of the Company and its controlled entities (the "Group") are the extraction, refining and sale of gold. Mining and processing facilities of the Group are located in the Krasnoyarsk and Irkutsk regions and Sakha Republic of the Russian Federation (and in the Republic of Kazakhstan until February 2013).

The Group also performs research, exploration and development works, primarily at the Natalka licence area located in the Magadan region. Further details regarding the nature of the business and of the significant subsidiaries of the Group are presented in note 35.1.

2. Basis of preparation and presentation

Going concern

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

Compliance with the International Financial Reporting Standards

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

Basis of presentation

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

The consolidated financial statements of the Group are prepared on the historical cost basis.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

The following new or amended IFRS standards have been issued by the IASB and endorsed by the EU as of 31 December 2013:

Title	Subject	Effective for annual periods beginning on or after	Effect on the consolidated financial statements in current and / or future periods
Amendments to IAS 1 (June 2011)	Presentation of Items of Other Comprehensive Income	1 July 2012	Presentation of the Consolidated statement of comprehensive income was updated to present: - items that will not be reclassified subsequently to profit or loss, and - items that may be reclassified subsequently to profit or loss when specific conditions are met
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	Early adopted in 2012
Annual Improvements to IFRSs: 2009-2011 Cycle (May 2012)	Annual Improvements to IFRSs: 2009-2011 Cycle	1 January 2013	Adopted. No effect.
Amendments to IFRS 1 (March 2012)	Government Loans	1 January 2013	Adopted. No effect.
Amendments to IFRS 7 (Dec 2011)	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Adopted. No effect.
IAS 19 (revised June 2011)	Employee Benefits	1 January 2013	Adopted. No effect.
Amendments to IAS 12 (Dec 2010)	Deferred Tax: Recovery of Underlying Assets	1 January 2013	Adopted. No effect.
Amendments to IFRS 1 (Dec 2010)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 January 2013	Adopted. No effect.
IFRS 13	Fair Value Measurement	1 January 2013	Additional disclosure of fair value hierarchy was presented (note 33)
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014	Early adopted. Additional disclosure of information on non-controlling interests was presented (note 35)
Amendments to IAS 39 (Jun 2013)	Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	Management is currently assessing the impact.
Amendments to IAS 36 (May 2013)	Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014	Management is currently assessing the impact.
Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012)	Investment Entities	1 January 2014	Management is currently assessing the impact.
Amendments to IAS 32 (Dec 2011)	Offsetting Financial Assets and Financial Liabilities	1 January 2014	Management is currently assessing the impact.
IFRS 11	Joint Arrangements	1 January 2014	Management is currently assessing the impact.
IFRS 10	Consolidated Financial Statements	1 January 2014	Management is currently assessing the impact.
IAS 28 (revised May 2011)	Investments in Associates and Joint Ventures	1 January 2014	Management is currently assessing the impact.
IAS 27 (revised May 2011)	Separate Financial Statements	1 January 2014	Management is currently assessing the impact.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

2. Basis of preparation and presentation (continued)

Re-presentation of long-lived physical assets as of 31 December 2012

The carrying values of Property, plant and equipment, Capital construction-in-progress, Mine under development and Exploration and evaluation assets as of 31 December 2012 have been re-presen-ted in these consolidated financial statements to provide for enhanced disclosure of long-lived physical assets by type and nature of use:

- items of Property, plant and equipment and Capital construction-in-progress used in construction of a mine not yet at the production stage (Natalka) were re-presented in a new caption line "Mine under development";
- items of Property, plant and equipment and Capital construction-in-progress used in exploration and evaluation activities were re-presented within reporting line "Exploration and evaluation assets".

The re-presentation of the previously reported long-lived physical assets as of 31 December 2012 is as follows:

	As previously reported	Re-presentation of long-lived physical assets	As restated
Property, plant and equipment	2,216,637	(414,857)	1,801,780
Capital construction-in-progress	623,277	(260,252)	363,025
Mine under development	-	623,568	623,568
Exploration and evaluation assets	467,269	51,541	518,810
Total	**3,307,183**	**-**	**3,307,183**

3. Significant accounting policies

3.1. Basis of consolidation

Subsidiaries

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

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

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

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

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

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

Non-controlling interests in consolidated subsidiaries are identified separately from the Group's equity therein. The non-controlling interest may initially be measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of the non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in net assets since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

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

When the Group loses control of a subsidiary, the profit and loss on disposal is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

Functional currency

The individual financial statements of the Group's subsidiaries are each prepared in their respective functional currencies. The functional currency of the Company is the US Dollar. The Russian Rouble ("RUB") is the functional currency of all the subsidiaries of the Group, except for the following subsidiaries operating with significant degrees of autonomy:

Subsidiaries	Functional currency
Jenington International Incorporated	US Dollar
Polyus Exploration Limited	US Dollar
Polyus Investments Limited	US Dollar

ended 31 December 2013 (in thousands of US Dollars)

3. Significant accounting policies (continued)

3.2. Presentation currency

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

- all assets, liabilities, both monetary and non-monetary, are translated at closing exchange rates at each reporting date;
- all income and expenses are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are included in equity and presented as Effect of translation to presentation currency within the Translation reserve; and
- in the statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rates for the years presented, except for significant transactions that are translated at rates on the date of transaction.

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

	2013	2012	2011
Russian Rouble/US Dollar			
Year end rate	32.73	30.37	32.20
Average for the year	31.85	31.09	29.39

3.3. Foreign currencies

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

3.4. Revenue recognition

Gold sales revenue

Revenue from the sale of refined gold and other gold-bearing products is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement or control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the entity. Revenue from gold doré sales is recognised at the time of shipment from the refining plant when the Group has received confirmation of sale to the third party. Revenue from gold-bearing products is recognised when the goods have been delivered to a contractually agreed location. Gold sales are stated at their invoiced value net of value-added tax.

Other revenue

Other revenue comprises mainly sales of electricity, transportation, handling and warehousing services, and other. Revenue from the sale of electricity is recognised when a contract exists, delivery has taken place, a quantifiable price has been established or can be determined and the receivables are likely to be recovered. Delivery takes place when the risks and benefits associated with ownership are transferred to the buyer. Revenue from service contracts is recognised when the services are rendered.

3.5. Income tax

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

Current tax

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

Deferred tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the year

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

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

3. Significant accounting policies (continued)

3.6. Operating leases

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

3.7. Dividends

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

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

3.8. Property, plant and equipment

Mineral rights

Mineral rights are recorded as assets upon acquisition at fair value and are included within Mining assets, Capital construction-in-progress, Mines under development or Exploration and evaluation assets.

Mining assets

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

Mining assets are amortised on a straight-line basis over the estimated economic useful life of the asset, or the remaining useful life of mines of 7 to 16 years per mine operating plans, which call for production from estimated proven and probable ore reserves under the Russian Resource Reporting Code, whichever is shorter. Amortisation is charged from the date a new mine reaches commercial production quantities and is included in the cost of production.

The estimated remaining useful lives of the Group's significant mines based on the mine operating plans are as follows:

Olimpiada	14 years
Blagodatnoye	16 years
Kuranakh	10 years
Verninskoye	11 years

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the economic useful lives of such assets:

Building, structures, plant and equipment	5-50 years
Transport	3-11 years
Other assets	3-10 years

Stripping activity asset

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

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

If not all of the criteria are met, the production stripping costs are included in the cost of inventory which are expensed in the consolidated income statement as cost of gold sales as they are sold.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. The costs associated with incidental operations are not included in the costs of stripping activity asset.

The Group uses an allocation basis that is based on volumes of waste extracted compared with expected volumes of ore extracted from a specific component of the ore body to allocate stripping costs between inventory and the stripping activity asset in accordance with the Group's mine operating plans. Production forecasts included in the mine operating plans are based on estimated proven and probable ore reserves under the Russian Resource Reporting Code.

The stripping activity asset is accounted for as a part of property, plant and equipment and subsequently depreciated using the straight-line method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. After initial recognition the stripping activity asset is carried at cost less depreciation and any impairment losses.

In 2014, the Group is planning to adopt the unit of production method to depreciate the stripping activity asset if there is a material divergence in the expected future depreciation charge when compared to the straight-line method.

3.9. Capital construction-in-progress

Assets under construction at operating mines are accounted for as capital construction-in-progress. The cost of capital construction-in-progress comprises its purchase price and any directly attributable costs to bringing it into working conditions for its intended use.

Capital construction-in-progress is not depreciated.

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

3.10. Mines under development

Comprises amounts related to new mines development and includes the costs directly related to mine development projects such as acquiring and developing mining properties, pre-production expenditure, construction of processing plant and mine infrastructure, mineral rights and mining and exploration licences and the present value of future decommissioning costs.

3. Significant accounting policies (continued)

3.11. Finance costs directly attributable to the construction of qualifying assets

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

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

All other finance costs are recognised in the consolidated income statement in the period in which they are incurred.

3.12. Impairment of long-lived tangible assets (Property, plant and equipment, Capital construction-in-progress and Mines under development)

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

The recoverable amount is the higher of fair value less costs to sell or value-in-use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods.

A reversal of an impairment loss is recognised in the consolidated income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.13. Exploration and evaluation assets

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

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

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

Impairment of exploration and evaluation assets

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

- the term of the exploration licence in the specific area has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of gold resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of gold resources in the specific area have not led to the discovery of commercially viable quantities of gold resources and the decision was made to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to occur, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

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

3.14. Inventories

Refined gold, ore stockpiles and gold-in-process

Inventories including refined metals, doré, metals in concentrate and in process and ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenses incurred directly or indirectly in bringing inventories to their existing condition and location. Refined metals are valued at the average cost of production per saleable unit of metal. Doré, metals in concentrate and in process, ore stockpiles are valued at the average production costs at the relevant stage of production. Net realisable value represents the estimated selling price for product based on prevailing spot metal prices, less estimated costs to complete production and costs necessary to make the sale.

Stores and materials

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

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

3.15. Financial assets

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

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

- financial assets at fair value through profit or loss ("FVTPL");
- held-to-maturity investments; and
- loans and receivables.

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

3. Significant accounting policies (continued)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the (Loss)/income from investments line item in the consolidated income statement. Fair value is determined in the manner described in note 33.

Held-to-maturity investments

Promissory notes with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with income recognised on an effective yield basis.

Loans and receivables

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

Impairment of financial assets

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense, respectively, over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments, as applicable, through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

3.16. Financial liabilities

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

Derecognition of financial liabilities

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

3.17. Cash and cash equivalents

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

3.18. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3. Significant accounting policies (continued)

3.19. Site restoration and environmental obligations

Site restoration and environmental obligations include decommissioning and land restoration costs. Future decommissioning and land restoration costs, discounted to net present value, are added to the respective assets and the corresponding obligations raised as soon as the constructive obligation to incur such costs arises and the future cost can be reliably estimated. Additional assets are amortised on a straight-line basis over the life-of-mine. The unwinding of the obligation is included in the consolidated income statement as finance costs. Obligations are periodically reviewed in light of current laws and regulations, and adjustments made as necessary to the corresponding item of property, plant and equipment.

Ongoing restoration costs are expensed when incurred.

4. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying accounting policies

Judgement has been applied when selecting the appropriate accounting policies. 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.

The most significant areas requiring the use of management estimates and assumptions relate to:

- justification of the economic useful lives of property, plant and equipment;
- recoverability of the exploration and evaluation assets;
- determination and valuation of the stripping activity asset;
- impairment of the tangible assets;
- estimation of the site restoration and environmental obligations;
- interpretation of the tax legislation in accounting for income taxes; and
- assessment of the outcome of contingencies.

Economic useful lives of property, plant and equipment

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

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

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

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

Non-mining property, plant and equipment are depreciated on a straight-line basis over their economic useful lives. Management periodically reviews the appropriateness of the assets' economic useful lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Exploration and evaluation assets

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

Stripping activity asset

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

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

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

Stripping costs incurred during the production phase should be allocated between inventory produced and the stripping activity asset by using the allocation basis. The Group considers that the volume of waste extracted compared with expected volume of a specific component of the ore body, for a given level of ore production, to be the most suitable allocation basis.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of tangible assets

The Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment indicators, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation.

Factors which could impact underlying cash flows include:
- commodity prices and exchange rates;
- timelines of granting of licences and permits;
- capital and operating expenditure; and
- available reserves and resources and future production profile.

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

Site restoration and environmental obligations

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

Income taxes

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

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

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgements and estimates of the outcome of future events.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

5. Discontinued operations and disposal of subsidiaries

In February 2013, the Group completed the transaction for the sale of its operating subsidiaries in Kazakhstan and Kyrgyzstan representing the Kazakhstan business unit for a total consideration of USD 297,282 thousand, recognizing a gain on disposal of USD 4,577 thousand. The following companies were sold:

- JSC "MMC Kazakhaltyn" and its subsidiaries operating in Kazakhstan; and
- Norox Mining Company Limited and its subsidiaries operating in Kyrgyzstan.

These operating subsidiaries mainly comprised the following mining operations in Northern and Eastern Kazakhstan: the Aksu mine (which consists of the Aksu mine and adjacent Quartzite Hills deposits), the Bestobe mine, the Zholymbet mine and the Akzhal mine. In addition, these assets include development properties in Northern, Eastern and Central Kazakhstan as well as exploration projects at Yuzhny Karaultube and Kaskabulak.

There were no contingent liabilities or deferred consideration applicable to the sale. All the proceeds were received in cash.

As the Kazakhstan operations did not meet the criteria for classification as a discontinued operation or assets held for sale as at 31 December 2012 it has not been re-presented as such in the statement of financial position. The comparative income statement has been re-presented to show the discontinued operations separately from continuing operation for the respective period.

5.1. Income statement effect of the discontinued operations

	Year ended 31 December	
	2013	**2012**
Gold sales	28,729	166,475
Other sales	348	1,717
Total revenue	**29,077**	**168,192**
Cost of gold sales	(22,981)	(96,521)
Cost of other sales	(115)	(1,842)
Gross profit	**5,981**	**69,829**
Selling, general and administrative expenses	(2,501)	(12,198)
Other income (expenses), net	(558)	619
Impairment losses (note 6)	-	(21,361)
Operating profit	**2,922**	**36,889**
Finance costs	(523)	(3,218)
Foreign exchange gain (loss)	867	(7,412)
Profit before income tax	**3,266**	**26,259**
Current income tax expense	(1,790)	(11,056)
Deferred income tax gain	321	219
Net profit attributable to discontinued operations	**1,797**	**15,422**
Gain from disposal of subsidiaries, net of tax (note 5.2)	4,577	-
Profit from discontinued operations	**6,374**	**15,422**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

5. Discontinued operations and disposal of subsidiaries (continued)

5.2. Assets and liabilities disposed in February 2013 as a result of discontinued operations

	Total assets / (liabilities) disposed
Non-current assets	
Property, plant and equipment (note 15)	264,445
Capital construction-in-progress (note 16)	40,599
Exploration and evaluation assets (note 18)	19,190
Inventories	919
	325,153
Current assets	
Inventories	31,250
Trade and other receivables	7,259
Advances paid to suppliers and prepaid expenses	7,061
Cash and cash equivalents	6,083
	51,653
Non-current liabilities	
Site restoration and environmental obligations (note 26)	34,641
Deferred tax liabilities	26,722
Other non-current liabilities	525
	61,888
Current liabilities	
Trade, other payables and accrued expenses	11,349
Taxes payable	2,180
	13,529
Total net assets of disposal group	**301,389**
Non-controlling interest disposed	(8,684)
Net assets disposed attributable to shareholders	292,705
Proceeds received	297,282
Gain on disposal of discontinued operations, net of tax (note 5.1)	**4,577**

5.3. Disposal of subsidiaries during the year ended 31 December 2012

During the year ended 31 December 2012, the following subsidiaries of the Group:

- Romaltyn Mining S.R.L., Romaltyn Exploration S.R.L., Romaltyn Limited (previously attributable to Kazakhstan business unit); and
- GRK Bargold Ltd and Yakutskoye GRP Ltd (previously attributable to the Exploration business unit) were sold to independent non related parties.

Romaltyn Mining and Romaltyn Exploration (together, "the Romanian assets") hold rights to various mining assets in Romania including a gold treatment plant with an annual processing capacity of 2.5 million tonnes (currently not in operation) and a number of exploration properties. Romanian assets were acquired in 2009, together with the Group's subsidiaries in Kazakhstan. The disposal of the Romanian assets was driven by the strategic objectives of the Group and the increased focus on our core large-scale operations.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

GRK Bargold and Yakutskoye GRP hold rights to a number of exploration properties in Russia. The Group's investment in GRK Bargold was fully impaired during the year ended 31 December 2011.

There were no contingent liabilities or deferred consideration applicable to the sales. All the proceeds were received in cash.

The following assets and liabilities were disposed during the year ended 31 December 2012:

	Romanian assets/ (liabilities)	GRK Bargold and Yakutskoye GRP assets/ (liabilities)	Total assets/ (liabilities) disposed
Property, plant and equipment (note 15)	9,772	-	9,772
Capital construction-in-progress (note 16)	6,572	-	6,572
Exploration and evaluation assets (note 18)	3,880	544	4,424
Cash	572	686	1,258
Other assets	900	18	918
Site restoration and environmental obligations (note 26)	(5,022)	-	(5,022)
Other liabilities	(1,947)	(12)	(1,959)
Total net assets disposed	**14,727**	**1,236**	**15,963**
Proceeds	20,000	2,231	22,231
Gain on disposal	**5,273**	**995**	**6,268**

6. Segment information

For management purposes, the Group is organised in the following separate business segments defined by a combination of operating activities and geographical area. Separate financial information is available for each segment and is reported regularly to the chief operating decision maker ("CODM") and the Executive Committee. The Group's seven identified reportable segments are located and described as follows (the Kazakhstan business unit was disposed in February 2013 (note 5.2) therefore it is not presented in the Segment information note):

- **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 Chertovo Korito, Smezhny and Medvezhy Zapadny deposits;
- **Yakutia Kuranakh business unit** (Sakha Republic of the Russian Federation) – Extraction, refining and sale of gold from the Kuranakh mines;
- **Magadan business unit** (Magadan region of the Russian Federation) – Represented by OJSC "Matrosova Mine" which performs development works at the Natalka deposit;
- **Exploration business unit** (Krasnoyarsk region, Irkutsk region, Amur region, and others) – Research and exploration works in several regions of the Russian Federation;
- **Capital construction unit** – Represented by LLC "Polyus Stroy" and CJSC "Vitimenergostroy" which perform construction works at Natalka, Verninskoye, Olimpiada and other deposits.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

6. Segment information (continued)

The reportable 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 the purposes of resource allocation, based on the segment measure; segment profit before income tax excluding the finance costs, other sales, costs of other sales and income from investments.

Business segment assets and liabilities are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. Segment financial information provided to the CODM is prepared from the management accounts, which are based on Russian accounting standards.

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

	Gold sales	Segment profit / (loss)	Capital expenditures
For the year ended 31 December 2013			
Business units			
Krasnoyarsk	1,668,495	134,785	180,899
Irkutsk alluvial	277,351	70,596	19,587
Irkutsk ore	122,002	583	78,146
Yakutia Kuranakh	190,751	5,260	17,406
Magadan	-	(68,217)	760,772
Exploration	-	(7,076)	13,828
Capital construction	-	(32,738)	45,958
Total	**2,258,599**	**103,193**	**1,116,596**
For the year ended 31 December 2012			
Business units			
Krasnoyarsk	1,948,587	990,463	144,555
Irkutsk alluvial	363,552	97,009	19,825
Irkutsk ore	76,166	29,687	151,188
Yakutia Kuranakh	229,719	57,245	23,446
Magadan	-	(20,061)	191,043
Exploration	-	(10,083)	22,535
Capital construction	-	1,339	133,916
Total	**2,618,024**	**1,145,599**	**686,508**

Gold sales reported above represent revenue generated from external customers. There were no inter-segment gold sales during the years ended 31 December 2013 and 2012.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

The segment measure of profit/(loss) reconciles to the IFRS reported profit before income tax on a consolidated basis as follows:

	Year ended 31 December	
	2013	**2012**
Segment profit per management accounts prepared in accordance with Russian accounting standards	**103,193**	**1,145,599**
Differences between management accounts and IFRS:		
Capitalised exploration, development and construction works	105,652	21,895
Impairment, provisions and accruals	74,240	(377)
Additional depreciation charge and amortisation of mineral rights	(45,936)	(22,314)
Calculation of gold-in-process at net production cost	(77,784)	493
Difference in stripping costs capitalisation	104,736	29,867
Other	(35,610)	684
Adjusted segment net profit	228,491	1,175,847
Unallocated central costs, results of financing and investing activities and related differences in accounting treatment under IFRS	5,198	35,669
Profit before income tax	**233,689**	**1,211,516**

The segment capital expenditures reconcile to the IFRS reported numbers on a consolidated basis as follows:

	2013	2012
Segment capital expenditures per management accounts prepared in accordance with Russian accounting standards	**1,116,596**	**686,508**
Differences between management accounts and IFRS:		
Differences at the moment of recognition of capital expenditures	37,705	46,175
Reclassification of advances paid for property, plant and equipment and construction works	24,030	(21,041)
Reclassification of materials related to construction works	157,571	71,375
Differences in capitalised mine under development and exploration and evaluation costs	91,038	2,015
Other	(2,295)	5,180
Adjusted segment capital expenditure	1,424,645	790,212
Unallocated central capital expenditures	15,046	18,674
Capital expenditures	**1,439,691**	**808,886**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

6. Segment information (continued)

The impairment losses for the year ended 31 December 2013, impacted the following reportable segments:

	Business units				
	Krasnoyarsk	Irkutsk ore	Yakutia Kuranakh	Exploration	Total
Mining assets (note 15)	-	-	59,466	-	59,466
Stripping activity asset (note 15)	-	-	28,377	-	28,377
Capital construction-in-progress (note 16)	2,137	-	16,639	-	18,776
Exploration and evaluation assets (note 18)	12,713	-	-	303,755	316,468
Long-term stockpiles (note 20)	-	-	33,365	-	33,365
Gold-in-process (note 20)	-	15,205	-	-	15,205
Total	**14,850**	**15,205**	**137,847**	**303,755**	**471,657**

The impairment losses for the year ended 31 December 2012, impacted the following reportable segments:

	Business units					
	Krasnoyarsk	Irkutsk alluvial	Irkutsk ore	Magadan	Exploration	Total
Continuing operations						
Mining assets (note 15)	-	131	-	-	-	131
Capital construction-in-progress (note 16)	-	81	1,189	-	-	1,270
Mine under development (note 17)	-	-	-	11,622	-	11,622
Exploration and evaluation assets (note 18)	99	-	-	-	2,302	2,401
Sub-total (note 11)	**99**	**212**	**1,189**	**11,622**	**2,302**	**15,424**
Discontinued operations						
Property, plant and equipment (note 15)						4,307
Capital construction-in-progress (note 16)						17,054
Sub-total (note 5.1)						**21,361**
Total						**36,785**

The Group's information about its non-current assets other than financial instruments by geographical location is as follows:

	31 December	
	2013	2012
Russian Federation	3,827,313	3,224,228
Republic of Kazakhstan	-	310,821
Kyrgyzstan	-	14,069
United Kingdom	45	70
Total	**3,827,358**	**3,549,188**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

7. Gold sales

	Year ended 31 December	
	2013	**2012**
Refined gold	2,258,599	2,588,722
Other gold-bearing products	-	29,302
Total	**2,258,599**	**2,618,024**

8. Cost of gold sales

	Year ended 31 December	
	2013	**2012**
Consumables and spares	361,889	304,363
Fuel	184,226	128,801
Labour	385,781	341,898
Tax on mining	165,573	192,435
Power	57,844	50,113
Outsourced mining services	22,563	31,264
Refining costs	6,132	5,621
Other	83,923	73,245
Sub-total	**1,267,931**	**1,127,740**
Amortisation and depreciation of operating assets (note 15)	209,152	169,923
Increase in gold-in-process and refined gold inventories	(130,560)	(32,357)
Total	**1,346,523**	**1,265,306**

9. Selling, general and administrative expenses

	Year ended 31 December	
	2013	**2012**
Salaries	151,027	133,774
Taxes other than mining and income taxes	25,471	62,226
Professional services	21,116	29,011
Amortisation and depreciation (note 15)	4,486	3,458
Other	23,695	27,236
Total	**225,795**	**255,705**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

10. Other expenses / (income), net

	Year ended 31 December	
	2013	**2012**
Change in estimations of decommissioning liabilities (note 26)	(5,521)	(15,247)
Change in allowance for reimbursable value added tax	1,551	(618)
Donations	3,914	6,339
Loss on disposal of property, plant and equipment and capital construction-in-progress	2,716	3,684
Maintenance expenses related to previously impaired Exploration and evaluation assets	8,117	-
Other	2,751	(6,342)
Total	**13,528**	**(12,184)**

11. Impairment losses

	Year ended 31 December	
	2013	**2012**
Mining assets (note 15)	59,466	131
Stripping activity asset (note 15)	28,377	-
Capital construction-in-progress (note 16)	18,776	1,270
Mine under development (note 17)	-	11,622
Exploration and evaluation assets (note 18)	316,468	2,401
Long-term stockpiles (note 20)	33,365	-
Gold-in-process (note 20)	15,205	-
Total	**471,657**	**15,424**

Following the significant fall in the gold price in the first half of 2013 and the subsequent sustained lower price, the Group reassessed:

- the carrying value of its mining assets, stripping activity assets and capital construction-in-progress, at its Kuranakh mine in the Yakutia business unit, against its value-in-use;
- the future prospectivity of its exploration and evaluation asset portfolio; and
- the recoverability of its long-term stockpiles and gold-in-process.

After the related tax credit of USD 50,867 thousand, the post-tax impairment charge is USD 420,790 thousand.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

Impairment of Property, plant and equipment and Capital construction-in-progress

As at 30 June 2013, the group recorded an impairment charge of USD 104,482 thousand in respect of the Kuranakh mine in the Yakutia region, following the significant fall in the gold price. As a consequence of the sustained lower gold price, the extended ramp up period of Verninskoye and the re-sequencing of the Natalka project, impairment tests have also been performed on the Verninskoye mine in the Irkutsk region and the Natalka mine under development in the Magadan region. No further impairments were required.

The key assumptions that were used in the impairment testing were a weighted average long term gold price of USD 1,350 per oz and a post-tax discount rate in the range 6-10% (pre-tax 7-12%) depending on the risk profile of each mine.

The impairment tests are particularly sensitive to the assumed price of gold and impairments would be required at an assumed gold price below USD 1,250 per oz.

Impairment of Exploration and evaluation assets

The future prospectivity of its Exploration and evaluation asset portfolio was reassessed and the following impairments identified:

	Year ended 31 December 2013
Nezhdaninskoye deposit	247,500
Degdekanskoye deposit	48,258
Burgakhchan area	6,393
Verkhnekadrinskaya area	6,483
Vangashskaya area	6,230
Apsakan deposit	1,604
Total	**316,468**

In the new lower gold price environment the Company is prioritising its investments. Despite the identification of significant reserves at the Nezhdaninskoye and Degdekanskoye deposits the Company now considers it unlikely that these will be developed.

Impairment of long-term stockpiles and gold-in-process

The recoverability of certain low-grade long-term ore stockpiles at Kuranakh and gravitation tailings at Verninskoye is now considered unlikely and accordingly these have been impaired.

12. Finance costs

	Year ended 31 December	
	2013	**2012**
Interest on borrowings	42,634	24,388
Unwinding of discounts on decommissioning liability (note 26)	5,442	9,003
Sub-total finance cost	**48,076**	**33,391**
Interest capitalised in the cost of Mine under development and Capital construction-in progress	(34,198)	(1,818)
Total finance cost expensed	**13,878**	**31,573**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

13. Income from investments, net

	Year ended 31 December	
	2013	**2012**
Interest income on bank deposits	26,910	35,757
Loss from revaluation and sale of investments	(6,851)	(378)
Other	1,289	581
Total	**21,348**	**35,960**

14. Income tax expense

	Year ended 31 December	
	2013	**2012**
Current tax expense	131,963	231,560
Deferred tax (benefit) / expense	(41,275)	14,852
Total	**90,688**	**246,412**

The corporate income tax rates in the countries where the Group has a taxable presence vary from 0% (British Virgin Islands) to 23.25% (United Kingdom).

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

	2013	2012
Profit from continuing operations before income tax	**233,689**	**1,211,516**
Income tax at statutory rate applicable to principal entities (20%)	46,738	242,303
Tax effect of non-deductible expenses and other permanent differences	6,379	(3,389)
Unrecognized deferred tax assets and write-off of losses carried forward resulted from impairments	47,477	-
Unrecognised tax losses	2,957	124
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,374)	15,565
Reversal of previously recognised income tax expense	(6,856)	-
Other	(3,633)	(2,063)
Tax effect of utilisation of tax losses not previously recognised	-	(6,128)
Income tax expense at effective rate of 39% (2012: 20%)	**90,688**	**246,412**

Impairment of assets (note 11) resulted in significant Unrecognized deferred tax assets during the year ended 31 December 2013.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

15. Property, plant and equipment

	Mining assets	Non-mining assets	Stripping activity asset	Total
Cost				
Balance at 31 December 2011	**2,077,283**	**55,225**	**93,812**	**2,226,320**
Additions	-	-	96,623	96,623
Transfers from capital construction-in-progress and reclassifications (note 16)	471,909	20,903	-	492,812
Change in decommissioning liabilities (note 26)	(32,899)	-	-	(32,899)
Disposals	(23,972)	(1,720)	-	(25,692)
Disposals of subsidiaries (note 5.3)	(13,580)	-	-	(13,580)
Effect of translation to presentation currency	100,913	3,551	8,081	112,545
Balance at 31 December 2012	**2,579,654**	**77,959**	**198,516**	**2,856,129**
Additions	-	-	37,692	37,692
Transfers from capital construction-in-progress (note 16)	371,234	15,865	-	387,099
Reclassifications	22,212	(22,212)	-	-
Change in decommissioning liabilities (note 26)	(6,590)	-	-	(6,590)
Disposals	(41,840)	(3,585)	-	(45,425)
Disposals of subsidiaries (note 5.2)	(352,839)	(3,199)	-	(356,038)
Effect of translation to presentation currency	(166,874)	(3,790)	(15,308)	(185,972)
Balance at 31 December 2013	**2,404,957**	**61,038**	**220,900**	**2,686,895**
Accumulated amortisation, depreciation and impairment				
Balance at 31 December 2011	**(771,644)**	**(22,369)**	**(7,454)**	**(801,467)**
Charge	(204,960)	(4,685)	(15,031)	(224,676)
Disposals	19,747	608	-	20,355
Disposals of subsidiaries (note 5.3)	3,808	-	-	3,808
Impairment				
continuing operations (notes 6 and 11)	(131)	-	-	(131)
discontinued operations (note 6)	(4,307)	-	-	(4,307)
Effect of translation to presentation currency	(45,736)	(1,377)	(818)	(47,931)
Balance at 31 December 2012	**(1,003,223)**	**(27,823)**	**(23,303)**	**(1,054,349)**
Charge	(223,034)	(3,955)	(18,094)	(245,083)
Reclassifications	(5,187)	5,187	-	-
Disposals	37,875	1,482	-	39,357
Disposals of subsidiaries (5.2)	91,249	344	-	91,593
Impairment of continuing operations (notes 6 and 11)	(59,466)	-	(28,377)	(87,843)
Effect of translation to presentation currency	71,225	1,672	2,182	75,079
Balance at 31 December 2013	**(1,090,561)**	**(23,093)**	**(67,592)**	**(1,181,246)**
Net book value				
31 December 2012	**1,576,431**	**50,136**	**175,213**	**1,801,780**
31 December 2013	**1,314,396**	**37,945**	**153,308**	**1,505,649**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

15. Property, plant and equipment (continued)

The carrying values of Property, plant and equipment, Capital construction-in-progress, Mine under development and Exploration and evaluation assets as 31 December 2012 were re-presented in these consolidated financial statements to provide for enhanced disclosure of long-lived physical assets by type and nature of its use. For details, refer to note 2.

Following the disposal of subsidiaries (note 5) mineral rights decreased by USD 128,728 thousand, the remaining difference was the result of amortisation.

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

	31 December	
	2013	**2012**
Mineral rights	49,259	229,056

Amortisation and depreciation charge is allocated as follows:

	Year ended 31 December	
	2013	**2012**
Cost of gold sales		
continuing operations (note 8)	209,152	169,923
discontinued operations	3,686	20,464
Selling, general and administrative expenses		
continuing operations (note 9)	4,486	3,458
discontinued operations	68	279
Cost of other sales	196	1,734
Capitalised within capital construction-in-progress	27,495	28,818
Total	**245,083**	**224,676**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

16. Capital construction-in-progress

	Business units					
	Krasnoyarsk	Irkutsk ore	Yakutia Kuranakh	Capital construction	Other	Total
Balance at 31 December 2011	**67,759**	**185,500**	**29,063**	**2,046**	**79,213**	**363,581**
Additions	100,733	111,504	26,684	133,917	127,112	499,950
Transfers to property, plant and equipment (note 15)	(93,674)	(159,652)	(21,524)	(99,856)	(118,106)	(492,812)
Disposals	(769)	-	-	-	(452)	(1,221)
Disposals of subsidiaries (note 5.3)	-	-	-	-	(6,572)	(6,572)
Impairment						
continuing operations (notes 6 and 11)	-	(1,189)	-	-	(81)	(1,270)
discontinued operations (note 6)	-	-	-	-	(17,054)	(17,054)
Effect of translation to presentation currency	4,217	9,948	1,868	930	1,460	18,423
Balance at 31 December 2012	**78,266**	**146,111**	**36,091**	**37,037**	**65,520**	**363,025**
Additions	209,813	53,253	15,673	68,229	36,253	383,221
Transfers to property, plant and equipment (note 15)	(113,269)	(148,662)	(26,188)	(54,671)	(44,309)	(387,099)
Disposals	-	-	-	-	(309)	(309)
Disposals of subsidiaries (note 5.2)	-	-	-	-	(40,599)	(40,599)
Impairment of continuing operations (notes 6 and 11)	(2,137)	-	(16,639)	-	-	(18,776)
Effect of translation to presentation currency	(8,168)	(7,953)	(2,320)	(3,032)	(40)	(21,513)
Balance at 31 December 2013	**164,505**	**42,749**	**6,617**	**47,563**	**16,516**	**277,950**

The carrying values of Property, plant and equipment, Capital construction-in-progress, Mine under development and Exploration and evaluation assets as of 31 December 2012 were re-presented in these consolidated financial statements to provide for enhanced disclosure of long-lived physical assets by type and nature of use. For details, refer to note 2.

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

- the Krasnoyarsk business unit relates to the expansion of mill throughput at Titimukhta, expansion of the bio-oxidation facility, installation of plant automation systems at Olimpiada and Blagodatnoye, construction of additional dormitories at Olimpiada and Blagodatnoye and maintenance capital expenditure;
- the Irkutsk ore business unit relate to the ramp-up and infrastructure construction of the Verninskoye mine.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

17. Mine under development

	Total
Balance at 31 December 2011	**302,475**
Additions	305,525
New decommissioning liabilities raised (note 26)	2,012
Impairment of continuing operations (notes 6 and 11)*	(11,622)
Effect of translation to presentation currency	25,178
Balance at 31 December 2012	**623,568**
Additions	1,023,818
Change in decommissioning liabilities (note 26)	(857)
Effect of translation to presentation currency	(72,268)
Balance at 31 December 2013	**1,574,261**

The carrying values of Property, plant and equipment, Capital construction-in-progress, Mine under development and Exploration and evaluation assets as of 31 December 2012 were re-presented in these consolidated financial statements to provide for enhanced disclosure of long-lived physical assets by type and nature of its use. For details, refer to note 2.

The carrying values of mineral rights related to a mine project under development were as follows:

	31 December	
	2013	**2012**
Mineral rights (variation is due to exchange rate only)	63,251	68,159

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

* During the year ended 31 December 2012 impairment of mining assets in the amount of USD 11,622 thousand was recognised following the decision to abandon activities related to the Omchak deposit, which represented a minor part of the Natalka deposit.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

18. Exploration and evaluation assets

	Nezhda-ninskoye	Deg-dekan-skoye	Chertovo Korito	Razdo-linskoye	Panimba	Olym-piada	Bamsky	Smezhny	Medvezhy Zapadny	Blago-dat-noye	Other	Total
Balance at 31 December 2011	**232,345**	**48,774**	**41,200**	**22,031**	**26,020**	**21,604**	**21,054**	**5,917**	**2,702**	**-**	**30,065**	**451,712**
Additions	19,108	130	3,139	3,559	1,295	1,057	160	4,039	1,899	-	10,858	45,244
Change in decom-missioning liabilities (note 26)	1,901	-	-	-	-	-	-	-	-	-	-	1,901
Impairment of continuing operations (notes 6 and 11)	(2,063)	-	-	-	-	-	-	-	-	-	(338)	(2,401)
Disposals of subsidiaries (note 5.3)	-	-	-	-	-	-	-	-	-	-	(4,424)	(4,424)
Effect of translation to presentation currency	11,397	2,888	2,474	1,317	1,611	1,322	1,268	349	105	-	4,047	26,778
Balance at 31 December 2012	**262,688**	**51,792**	**46,813**	**26,907**	**28,926**	**23,983**	**22,482**	**10,305**	**4,706**	**-**	**40,208**	**518,810**
Additions	6,678	395	4,178	5,765	426	2,161	302	4,817	456	4,853	2,621	32,652
Change in decom-missioning liabilities (note 26)	(2,909)	-	-	-	-	-	-	-	-	-	-	(2,909)
Impairment of continuing operations (notes 6 and 11)	(247,500)	(48,258)	-	-	-	-	-	-	-	-	(20,710)	(316,468)
Disposals of subsidiaries (note 5.2)	-	-	-	-	-	-	-	-	-	-	(19,190)	(19,190)
Effect of translation to presentation currency	(18,957)	(3,929)	(3,483)	(2,093)	(2,094)	(1,785)	(1,627)	(809)	(413)	(334)	(2,785)	(38,309)
Balance at 31 December 2013	**-**	**-**	**47,508**	**30,579**	**27,258**	**24,359**	**21,157**	**14,313**	**4,749**	**4,519**	**144**	**174,586**

The carrying values of Property, plant and equipment, Capital construction-in-progress, Mine under development and Exploration and evaluation assets as of 31 December 2012 were re-presented in these consolidated financial statements to provide for enhanced disclosure of long-lived physical assets by type and nature of its use. For details, refer to note 2.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

19. Investments in securities and other financial assets

	31 December	
	2013	**2012**
Non-current		
Loan Participation Notes	-	13,286
Loans receivable	1,765	2,748
Sub-total	**1,765**	**16,034**
Current		
Bank deposits	47,815	68,286
Equity investments in listed companies held for trading	-	9,276
Other	418	798
Sub-total	**48,233**	**78,360**
Total	**49,998**	**94,394**

Bank deposits

Bank deposits bearing interest at 6.57–7.12% (31 December 2012: 7.80–8.76%) per annum are denominated in RUB with a maturity date in January – March 2014.

20. Inventories

	31 December	
	2013	**2012**
Inventories expected to be recovered after 12 months		
Stockpiles	291,711	234,550
Gold-in-process	3,201	7,455
Sub-total	**294,912**	**242,005**
Inventories expected to be recovered in the next 12 months		
Stockpiles	110,915	73,280
Gold-in-process	86,619	112,040
Refined gold	28,215	24,393
Stores and materials	476,366	449,767
Sub-total	**702,115**	**659,480**
Total	**997,027**	**901,485**

The following impairments have been recognised following a reassessment of net realisable value by the Company:

	Year ended 31 December	
	2013	**2012**
Long-term stockpiles (notes 6 and 11)	33,365	-
Gold-in-process (notes 6 and 11)	15,205	-
Total	**48,570**	**-**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

21. Deferred expenditures

	31 December	
	2013	**2012**
Deferred expenditures	16,330	19,090

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

22. Trade and other receivables

	31 December	
	2013	**2012**
Trade receivables for gold sales	-	20,284
Other receivables	39,010	36,342
Less: Allowance for doubtful debts	(11,570)	(11,257)
Total	**27,440**	**45,369**

Substantially all gold sales are made to banks with immediate payment terms.

Other receivables include amounts receivable from sales of electricity, transportation, handling, warehousing services and other services. The procedure for accepting a new customer includes checks by the security department regarding the customer's business reputation, licences and certifications.

23. Taxes receivable

	31 December	
	2013	**2012**
Reimbursable value added tax	217,645	210,383
Income tax prepaid	25,186	6,683
Other prepaid taxes	6,893	3,769
Total	**249,724**	**220,835**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

24. Cash and cash equivalents

	31 December	
	2013	**2012**
Bank deposits		
- RUB	453,025	524,947
- USD	190,389	100,000
Current bank accounts		
- RUB	73,106	100,411
- USD	91,249	232,769
Other cash and cash equivalents	906	1,805
Total	**808,675**	**959,932**

Bank deposits are denominated in RUB and USD and bear interest of 4.0-7.5% per annum with original maturity within three months.

25. Share capital

The authorised share capital of the Company comprises 3,600,000 thousand ordinary shares with a par value of GBP 0.0001 per share.

The issued and fully paid up share capital of the Company comprises 3,032,150 thousand ordinary shares issued at a premium, resulting in share capital of USD 482 thousand and additional paid-in-capital of USD 2,151,765 thousand.

Dividends to shareholders of the Company

	Year ended 31 December	
	2013	**2012**
Dividend declared and paid during the year:		
USD thousand	320,195	124,318
US cents per share	0.11	0.04

The Final dividend for 2012 in the amount of USD 0.0824 per share and a Special dividend of USD 0.0232 per share in respect of the sale of the group's gold mining assets in Kazakhstan, Kyrgyzstan and Romania were approved at the Annual General Meeting at 31 May 2013 and paid on 7 June 2013.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

26. Site restoration and environmental obligations

	Business units							
	Krasnoyarsk	Irkutsk alluvial	Irkutsk ore	Yakutia Kuranakh	Magadan	Exploration	Kazakhstan	Total
Balance at 31 December 2011	**47,827**	**6,079**	**16,485**	**32,046**	**-**	**5,371**	**42,068**	**149,876**
New obligations raised (note 17)	-	-	-	-	2,012	-	-	2,012
Change in estimation (notes 10, 15, 17, 18)	(13,653)	299	(5,370)	(24,694)	-	1,901	(4,728)	(46,245)
Unwinding of discount on decommissioning obligations	4,438	418	1,501	2,646	-	-	3,140	12,143
Disposal of subsidiaries (note 5.3)	-	-	-	-	-	-	(5,022)	(5,022)
Other	-	-	-	667	-	516	-	1,183
Effect of translation to presentation currency	2,653	381	899	1,417	48	380	(575)	5,203
Balance at 31 December 2012	**41,265**	**7,177**	**13,515**	**12,082**	**2,060**	**8,168**	**34,883**	**119,150**
Change in estimation (notes 10, 15, 17, 18)	(8,556)	(512)	(1,635)	(349)	(857)	(3,968)	-	(15,877)
Unwinding of discount on decommissioning obligations	2,835	459	900	951	-	297	-	5,442
Disposals of subsidiaries (note 5.2)	-	-	-	-	-	-	(34,641)	(34,641)
Other	-	-	-	-	147	256	(309)	94
Effect of translation to presentation currency	(2,818)	(515)	(953)	(886)	(129)	(388)	67	(5,622)
Balance at 31 December 2013	**32,726**	**6,609**	**11,827**	**11,798**	**1,221**	**4,365**	**-**	**68,546**

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

	31 December	
	2013	2012
Discount rates	5.8–8.7%	6.2–8.3%
Inflation rates	5.0–6.5%	2.5–8.1%
Expected mine closure dates	2014–2045	2013–2050

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

	31 December	
	2013	2012
Due from 2nd to 5th year	7,412	3,156
Due from 6th to 10th year	15,291	11,447
Due from 11th to 15th year	27,251	45,877
Due from 16th to 20th year	17,374	34,884
Due thereafter	1,218	23,786
Total	**68,546**	**119,150**

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

27. Borrowings

		Nominal rate %	31 December	
			2013	2012
Notes due in 2020	(i)	5.625%	744,241	-
HSBC credit facility	(ii)	3 months USD LIBOR+3%	99,725	99,325
Unicredit Bank credit facility to OJSC "Pervenets"	(iii)	3 months USD LIBOR + 2.4%	22,222	44,444
Unicredit Bank credit facility	(iii)	3 months USD LIBOR+2.95%	-	99,544
Unicredit Bank credit facility to OJSC "Matrosova Mine"	(iii)	6 months USD LIBOR + 2.02%	55,787	-
Société Générale credit facility to OJSC "Pervenets"	(iv)	3 months USD LIBOR + 2.4%	22,222	44,444
Société Générale export financing credit facility agreement to CJSC "Gold Mining Company Polyus"	(iv)	6 months USD LIBOR + 0.55%	25,546	25,389
Deutsche Bank credit facility to OJSC "Matrosova Mine"	(v)	6 months USD LIBOR + 1.35%	19,544	-
Deutsche Bank letters of credit with deferred payment issued by the order of OJSC "Matrosova Mine"	(v)			
- nominated in USD		6 month USD LIBOR + 2.4%	20,676	30,856
- nominated in EUR		Cost of fund (COF) + 2.7%	92,417	4,345
VTB Bank letters of credit with deferred payment issued by the order of OJSC "Matrosova Mine"	(vi)			
- nominated in USD		6 months USD LIBOR + 1.7%	48,560	-
- nominated in EUR		Euribor +1.8%	32,388	-
Rosbank letters of credit with deferred payment issued by the order of CJSC "Gold Mining Company Polyus"	(vii)	6 months USD LIBOR + 2.35%	22,258	-
Sub-total			**1,205,586**	**348,347**
Less: Current portion due within 12 months			(268,693)	(187,555)
Long-term borrowings			**936,893**	**160,792**

Summary of borrowing agreements

(i) Notes due in 2020

On 29 April 2013, the Company issued USD 750 million Notes maturing in 2020 with a fixed coupon rate of 5.625% paid semi-annually. The notes are accounted for at amortised cost at the effective interest rate. Proceeds from the Notes are being utilised on the Natalka construction project, respectively interest expense in amount of USD 28,795 thousand was fully capitalised into Mine under development balance at the effective interest rate of 5.835%.

(ii) HSBC

On 10 February 2012, the Company entered into a three year USD 100 million credit facility with HSBC to fund the redemption of the Guaranteed senior notes, which were redeemed early in 2012. The facility is to be repaid in five equal instalments in intervals of three months starting from March 2014. The facility was fully utilised as of 31 December 2013.

(iii) Unicredit Bank

On 4 October 2011, OJSC "Pervenets", a subsidiary of the Group, entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011, Société Générale transferred USD 50 million of the facility [see note (iv) below] to a new lender Unicredit Bank. The facility is to be repaid in nine equal instalments in intervals of three months starting from 4 October 2012. As of 31 December 2013, USD 50 million had been drawn down and five repayments made.

On 29 December 2011, the Company entered into a two year USD 100 million facility agreement arranged by Unicredit Bank to fund the redemption of Guaranteed senior notes, which were redeemed early in 2012. The facility was fully redeemed as of 31 December 2013.

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

(iv) Société Générale

On 4 October 2011, OJSC "Pervenets", a subsidiary of the Group, entered into a three year USD 100 million term loan facility agreement with Société Générale as a lender to fund general corporate purposes. On 6 October 2011, Société Générale transferred USD 50 million of the facility to a new lender, Unicredit Bank [see note (iii) above]. The facility is to be repaid in nine equal instalments in intervals of three months starting from 4 October 2012. As of 31 December 2013, USD 50 million had been drawn down and five repayments made.

As of 31 December 2013, USD 25,546 thousand was outstanding out of a USD 67,502 thousand export financing credit facility agreement with Société Générale for financing to be used for the purchase of mining equipment. The facility was established for facilitation of exports from the United States of America and guaranteed by Export-Import Bank of the United States. The maturity of the outstanding amounts varies from 2014 to 2016. The credit facility is secured by the pledge of plant and equipment with the net book value of USD 46,924 thousand (2012: USD 52,375 thousand).

(v) Deutsche Bank

On 7 August 2013, OJSC "Matrosova Mine", a subsidiary of the Group, 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 in 2013. The maturity of the outstanding amounts varies from 2014 to 2018.

As of 31 December 2013, OJSC "Matrosova Mine" had outstanding a number of letter of credit agreements with Deutsche Bank for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2014 to 2015.

(vi) VTB Bank

As of 31 December 2013, OJSC "Matrosova Mine" had outstanding a number of letter of credit agreements with VTB Bank for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2014 to 2017.

(vii) Rosbank

As of 31 December 2013, CJSC "Gold Mining Company Polyus" had an outstanding letter of credit agreement with Rosbank for the acquisition of mining equipment with deferred payment terms. The maturity of the outstanding amounts varies from 2014 to 2016.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

27. Borrowings (continued)

(viii) Unused credit facilities

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

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

(ix) Other matters

CJSC "Gold Mining Company Polyus" guaranteed liabilities of all the companies of the Group under all the finance agreements.

There were a number of covenants in effect as of 31 December 2013 under several loan agreements according to which the respective subsidiaries of the Company and Company itself are limited in distribution of their assets. The Group is not allowed to divest more than 10% of its assets in any form of transaction without prior consent of the banks. Limitation is applicable to the most significant subsidiaries of the Group.

In addition in accordance with certain bank covenants the Company is restricted in the right to dispose of the controlling share in certain significant subsidiaries of the Group. Also, there is a restriction on transfer of non-core assets between certain subsidiaries of the Group.

The Group was in compliance with these covenants as of 31 December 2013.

28. Deferred tax liabilities

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

	Year ended 31 December	
	2013	**2012**
Net deferred tax liability at beginning of the year	**208,998**	**184,207**
Recognised in the consolidated income statement	(41,275)	14,633
Deferred tax liability disposed as a result of discontinued operations	(26,722)	-
Other	12,650	-
Effect of translation to presentation currency	(19,235)	10,158
Net deferred tax liability at end of the year	**134,416**	**208,998**

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The deferred tax amounts resulted from temporary differences in the following accounts are presented below:

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

	31 December	
	2013	2012
Property, plant and equipment	108,739	192,923
Inventory	72,559	61,592
Investments	(202)	(1,825)
Receivables	777	(1,322)
Accrued expenses	(47,457)	(42,370)
Total	**134,416**	**208,998**

Unrecognised deferred tax asset

The unrecognised deferred tax asset in respect of tax losses carried forward available for offset against future taxable profit of certain subsidiaries within the Group	87,620	40,143
Such tax losses expire in periods up to ten years, and are not recognised as management does not believe it is probable that future taxable profit will be available against which the respective entities can utilise the benefits.		
Unrecognised deferred tax liability		
The unrecognised deferred tax liability for taxable temporary differences associated with investments in subsidiaries	26,298	78,020

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

29. Trade, other payables and accrued expenses

	31 December	
	2013	2012
Trade payables to third parties	32,349	41,204
Other payables		
Other accounts payable and accrued expenses	89,644	103,968
Wages and salaries payable	86,372	81,768
Dividends payable to non-controlling interests	6,085	25,906
Interest payable	9,632	726
Total other payables	**191,733**	**212,368**
Accrued annual leave	36,295	36,274
Total	**260,377**	**289,846**

The average credit period for payables at 31 December 2013 was 19 days, (2012: 21 days). No interest was charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payments schedules to ensure that all amounts payable are settled within the credit period.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

30. Taxes payable

	31 December	
	2013	2012
Income tax payable	705	30,583
Value added tax	13,442	14,227
Social taxes	22,774	20,319
Tax on mining	7,898	15,306
Property tax	2,787	4,123
Other taxes	5,369	43,236
Total	**52,975**	**127,794**

31. Related parties

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

The Group had no transactions with its shareholders during the years 2013 and 2012.

Entities under common ownership

The Group had the following outstanding balances and investments with entities under common control:

	31 December	
	2013	2012
Cash and cash equivalents at Bank "Mezhdunarodniy finansoviy club"	-	151,692
Loan Participation Notes "RBC"	-	14,366
Investments in securities and other financial assets at "Mezhdunarodniy finansoviy club"	-	7,603
Equity investments in listed companies held for trading "RBC"	-	7,465
Advances and prepaid expenses paid to suppliers	-	298

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

The Group entered into the following transactions with entities under common control:

	Year ended 31 December	
	2013	2012
Purchase of goods and services	-	2,988
Interest income	1,353	10,147

Key management personnel

Short-term compensation of key management personnel amounted to:	47,876	35,012

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

32. Commitments and contingencies

Commitments

Capital commitments

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

	31 December	
	2013	2012
Natalka project	69,129	300,859
Other	77,350	155,649
Total	**146,479**	**456,508**

Operating leases: Group as a lessee

The land in the Russian Federation on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2060. Future minimum lease payments due under non-cancellable operating lease agreements at the end of the year were as follows:

	2013	2012
Due within one year	4,385	2,928
From one to five years	14,260	9,236
Thereafter	34,545	19,085
Total	**53,190**	**31,249**

Contingencies

Litigations

In the ordinary course of business, the Group is subject to litigation in a number of jurisdictions, the outcome of which is uncertain and could give rise to adverse outcomes. At the date of issuance of these consolidated financial statements there were no material claims and litigation applicable to the Group, except for the lawsuit related to the additional dividends distribution attributable to preferred shares of OJSC "Lenzoloto" for the amount of USD 8,978 thousand. 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.

32. Commitments and contingencies (continued)

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

Taxation contingencies in the Russian Federation

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

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

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

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

With regards to matters where practice concerning payment of taxes is unclear, management estimate that there were no tax exposures at 31 December 2013 and 2012.

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 the existing Russian environmental legislation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernises technology to meet more stringent standards.

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

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

33. 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 (borrowings as described in note 27) less cash and cash equivalents (disclosed in note 24) and equity of the Group (comprising issued share capital, reserves, retained earnings and non-controlling interests).

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, other non-current liabilities 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 accounts receivable and loans advanced, cash and cash equivalents, and promissory notes and other investments.

	31 December	
	2013	**2012**
Financial assets		
Financial assets at FVTPL		
Equity investments in listed companies held for trading	-	9,276
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	808,675	959,932
Bank deposits	47,815	68,286
Trade and other receivables	27,440	45,369
Loans receivable	1,765	2,748
Loan Participation Notes accounted for at amortised cost	-	13,286
Total financial assets	**885,695**	**1,098,897**
Financial liabilities		
Borrowings	1,205,586	348,347
Trade payables	32,349	41,204
Other payables	191,733	242,519
Other non-current liabilities	-	524
Total financial liabilities	**1,429,668**	**632,594**

All of the financial assets and liabilities carrying values approximate the fair value except for the Notes due 2020, which has a fair value of USD 727,943 thousand at 31 December 2013, and is classified as Level 1 as the fair value is based on quoted prices.

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

Interest rate risk

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings.

If the interest rate was 1% higher/lower during the year ended 31 December 2013 interest expense for the year 2013 would increase/decrease by USD 9,761 thousand.

The Group does not enter into any hedging contracts or use other financial instruments to mitigate the commodity price risk.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

33. Financial instruments risk management activities (continued)

Foreign currency risk

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

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

	31 December	
	2013	**2012**
Assets		
USD	291,507	348,508
EURO	1,597	1,888
Total		
Liabilities		
USD	1,098,881	381,499
EURO	93,767	14,087
Total	**1,192,648**	**395,586**

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

The table below details the Group's sensitivity to changes of exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	Year ended 31 December	
	2013	**2012**
Profit or loss (RUB to USD)	80,737	3,852
Profit or loss (RUB to EURO)	12,688	1,612

Credit risk

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

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

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

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

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

Although the Group sells more than 84% of the gold produced to three major customers, the Group is not economically dependent on these customers because of the high level of liquidity in the gold commodity market. A substantial portion of gold sales are made to banks on advance payment or immediate payment terms, therefore credit risk related to trade receivables is minimal. The outstanding receivables for gold sales are presented as follows:

	31 December	
	2013	**2012**
Trade receivables for gold sales	-	20,284

Gold sales to the Group's three major customers, individually exceeding 9% of the Group's gold sales are presented as follows:

	Year ended 31 December	
	2013	**2012**
Nomos Banks	1,057,160	1,092,484
VTB Bank	446,465	1,004,958
Bank of Moscow	390,789	239,301
Gold sales to three major customers (84% of the Group's gold sales)	**1,894,414**	**2,336,743**

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

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

Liquidity risk

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

Historically the Group has not relied extensively on external financing. Following the development of new capital projects during 2013, the Group issued notes and arranged certain external finance facilities with the banks, see note 27.

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

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

33. Financial instruments risk management activities (continued)

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

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2013 based on undiscounted contractual payments, including interest payments:

	Borrowings*		Other non-current liabilities	Trade and other payables	Total
	Principal	Interest			
Due in the first year	268,693	60,711	-	214,385	543,789
Due in the second year	117,524	44,977	-	-	162,501
Due in the third year	25,924	44,291	-	-	70,215
Due in the fourth year	19,413	43,722	-	-	63,135
Due in the fifth year	9,145	43,417	-	-	52,562
Due in the period between sixth to eight years	770,921	57,712	-	-	828,633
Total	**1,211,620**	**294,830**	**-**	**214,385**	**1,720,835**

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2012 based on undiscounted contractual payments, including interest payments:

	Borrowings*		Other non-current liabilities	Trade and other payables	Total
	Principal	Interest			
Due within three months	11,481	2,053	524	282,997	297,055
Due within three to nine months	61,235	4,526	-	-	65,761
Due within nine to twelve months	115,294	2,673	-	-	117,967
Due in the second year	52,811	4,080	-	-	56,891
Due in the third year	108,366	659	-	-	109,025
Due in the fourth year	290	2	-	-	292
Due in thereafter	-	-	-	-	-
Total	**349,477**	**13,993**	**524**	**282,997**	**646,991**

34. Events after the reporting date

There have been no material reportable events since 31 December 2013 and the date of signing the report.

* Borrowings are presented net of upfront commissions paid to banks.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

35. Investments in significant subsidiaries

35.1. Information about significant subsidiaries of the Group

Subsidiaries	Nature of business	Effective % held[1] at 31 December 2013	2012
Incorporated in Russian Federation			
OJSC "Polyus Gold"[2]	Management company	95	95
CJSC "Gold Mining Company Polyus"	Mining (open pit)	95	95
OJSC "Aldanzoloto GRK"	Mining (open pit)	95	95
OJSC "Lenzoloto"	Market agent	61	61
CJSC "ZDK Lenzoloto"	Mining (alluvial)	63	63
CJSC "Lensib"[3]	Mining (alluvial)	38	38
CJSC "Svetliy"	Mining (alluvial)	53	53
CJSC "Marakan"	Mining (alluvial)	53	53
CJSC "Dalnaya Taiga"	Mining (alluvial)	52	52
CJSC "Sevzoto"[3]	Mining (alluvial)	41	41
OJSC "Matrosova Mine"	Mining (development stage)	95	95
CJSC "Tonoda"	Mining (exploration stage)	95	95
OJSC "Pervenets"	Mining (open pit)	95	95
OJSC "South-Verkhoyansk Mining Company"	Mining (exploration stage)	95	95
LLC "Polyus Stroy"	Construction	95	95
Incorporated in British Virgin Islands			
Polyus Exploration Limited	Geological research	95	95
Jenington International Incorporated	Market agent	95	95
Incorporated in Kazakhstan			
JSC "MMC Kazakhaltyn"	Mining (underground)	-	100

1 Effective % held by the Company, including holdings by other subsidiaries of the Group.
2 Effective % includes 92.95% of ordinary shares held directly by the Company as at 31 December 2013 and 2012.
3 The Company maintains control of these entities as it continues to govern their financial and operating policies and manage returns from them through its ability to appoint the majority in the Board of Directors. A majority of the Board members for these entities are representatives of the Company and are therefore consolidated even though the effective interest is less than 50% as at 31 December 2013 and 2012 and for the years then ended. Direct ownership in those subsidiaries by immediate parent is in each case exceeds 50%, and there are no other additional agreements or other instances which could have set limits on the Company's ability to execute its control over its subsidiaries.

Notes to the consolidated financial statements for the year ended 31 December 2013 (in thousands of US Dollars)

35. Investments in significant subsidiaries (continued)

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

The summarised financial information below represents amounts before intragroup eliminations.

	OJSC "Polyus Gold" consolidated		OJSC "Lenzoloto" consolidated	
Summarized statements	**2013**	**2012**	**2013**	**2012**
Information as at 31 December				
Current assets	1,994,597	2,393,823	175,523	215,118
Non-current assets	3,822,698	3,240,275	68,881	72,301
Current liabilities	536,031	805,513	25,120	25,137
Non-current liabilities	1,157,767	351,572	13,522	9,232
Equity attributable to the owners of the subsidiary	3,848,218	4,194,368	127,060	157,348
Non-controlling interests	275,279	282,645	78,702	95,702
Information for the years ended 31 December				
Revenue	2,258,599	2,618,024	277,351	363,552
(Loss) / profit for the year	(61,004)	891,931	(2,142)	73,118
(Loss) / profit attributable to non-controlling interests	(3,825)	20,298	12,966	20,977
Total comprehensive (loss) / income	(380,002)	1,087,942	(2,142)	73,118
Net cash inflow from operating activities	428,380	968,543	74,470	110,968
Net cash (outflow) / inflow from investing activities	(1,160,594)	(1,255,066)	5,018	(61,467)
Net cash inflow / (outflow) from financing activities	635,969	452,847	(82,622)	(112,094)
Dividends paid to non-controlling interests	42,967	47,547	25,741	35,425

35.3. Significant restrictions on the Company's ability to access or use the assets and settle the liabilities of the group

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

Appendix. Glossary

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Balance reserve
The volume of material that indicates the presence of metal at a sufficient probability level, the economic value of which is confirmed by the State Reserves Committee.

Bio-oxidation (BIOX)
Oxidation of sulphide minerals exposed to bacteria with metal extraction through desalination.

Carbon-in-leach (CIL)
A gold recovery process in which gold-bearing ore, activated carbon and cyanide are mixed as slurry. The cyanide dissolves the gold, which is subsequently absorbed by and separated from the carbon.

Carbon-in-pulp (CIP)
A method of recovering gold and silver from pregnant cyanide solutions by adsorbing the precious metals to granules of activated carbon.

Cut-off grade
The minimally acceptable sample value that can be used to determine the economic value of a mineral; unit cut-off grade – unit value that optimises net value generated by developing property.

Cyanidation (cyanide desalination)
A method of extracting gold or silver from crushed or milled ore by dissolving it in a weak cyanide solution; may be performed on crushed ore stored in containers or in piles in the open air.

Cyanide Code
(International Cyanide Management Code for the manufacture, Transport and Use of Cyanide in the Production of Gold) A voluntary industry programme for the gold mining industry to promote responsible management of cyanide used in gold mining, enhance the protection of human health, and reduce the potential for environmental impacts.

Doré, Doré alloy
Unrefined gold; a commercial end product of a gold mill, which is produced by alloying the products of the previous ore concentration processes.

Equator Principles
A voluntary set of standards for determining, assessing and managing social and environmental risk in project financing.

Flotation
Process of physical segregation, during which minerals attach to bubbles and resurface as other minerals sink.

Heap leaching (HL)
A process whereby valuable metals, usually gold and silver, are leached from a heap, or pad, of crushed ore by leaching solutions percolating down through the heap and collected from a sloping, impermeable liner below the pad.

ISO 14001
International Standard for the establishment of an Environmental Management System.

JORC Code
Australasian reporting code for mineral resources and ore reserves, developed by the Joint committee on ore reserves of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geological Sciences and the Mineral Council of Australia; the currently valid code dates to 2004.

Mineral reserve
(Russian classification) The Russian equivalent of the Western notion of mineral resources and ore reserves. Mineral reserves are subdivided into the categories A, B, C_1 and C_2, depending on the extent of their certainty and degree of technological exploration.

Off-balance mineral reserves
Material volume which manifests metal availability to a sufficient extent of certainty, but whose economic extraction profitability has not been proved.

OHSAS 18001
International standard for health and safety management.

Open pit
Open surface excavation; among these are open-cast mines and open pits.
Mineralised body which is either profitably exploited, or which manifests reasonable certainty of profitable exploitation.

Ore field
The total number of mines used to exploit a common mineral deposit or a group of closely interconnected ore bodies (diggings).

Ore reserve (JORC Code)
The part of measured and/or indicated mineral resources that may be mined on an economically profitable basis.

Oxide ore
Ore exposed to the process of natural oxidation.

Refractory ore
Ore that resists the action of chemical reagents in the normal treatment processes and which may require pressure leaching or other means to effect the full recovery of the valuable minerals.

Resin-in-pulp (RIP)
As carbon-in-pulp but using resin to absorb the leached gold.

State Reserves Commission
(State Reserves Commission of the Federal Agency for Subsoil Use)
State commission for mineral reserves; set up in 1927, the SRC controls the usage of mineral resources on behalf of the RF Ministry of Ecology and Natural Resources.

Sulphide ore
Ore in its primarily mineralised state, which has not been exposed to natural oxidation.

Appendix. Abbreviations

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ARDML	Acid Rock Drainage and Metal Leaching
BU	Business unit
Board	Board of Directors
CDP	Community Development Plan
CIL	Carbon-in-leach
CIP	Carbon-in-pulp
CPI	Consumer Price Index
ESIA	Environmental and Social Impact Assessment
EMS	Environmental Management System
GHG	Greenhouse gas
GRI	Global Reporting Initiative – Global Reporting Initiative in the area of sustainable development
g/t	Gram per tonne
HR	Human resources
HSEC	Health, Safety, Environment and Community
HSMS	Health and Safety Management System
H&S	Health and Safety
ICMC	International Cyanide Management Code
ICMM	International Council on Mining and Metals
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ISO 14001	International Standard for the establishment of an Environmental Management System
KPI	Key performance indicator
LSE	London Stock Exchange
LTI	Lost time injury
LTIFR	Lost time injury frequency rate
MI&I	Measured, Indicated and Inferred
Mtpa	Million tonnes per annum
mW	Megawatt
NGO	Non-Government Organisation
PGIL	Polyus Gold International Limited
PPE	Personal Protective Equipment
P&P	Proved and Probable
R&D	Research and development
RIL	Resin-in-leach
RIP	Resin-in-pulp
SAG	Semi-autogenous grinding
t	Tonne

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