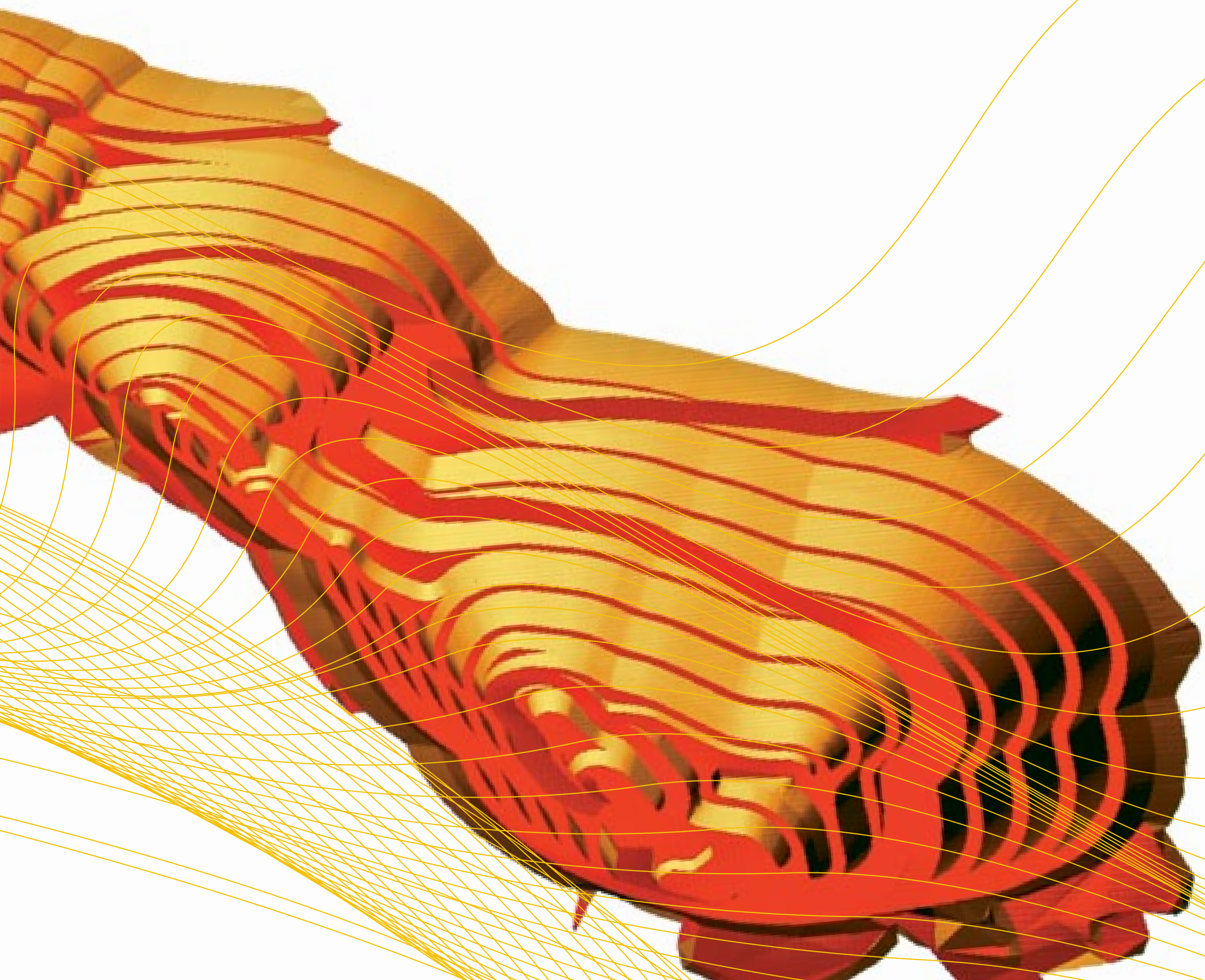
Delivering on our promises
and sustaining future growth

Annual Report 2011



PETROPAVLOVSK

Petropavlovsk yesterday:

One pre-development gold mining project

A small team of experts and entrepreneurs

An ambition to become a leading Russian gold producer

Petropavlovsk today:

One of the leading gold producers in Russia
- Four producing mines
- Sustainable production generating strong cash flows

One of the biggest gold explorers in Russia
- 25Moz of resources and 10Moz of reserves through organic growth
- Comprehensive in-house facilities to perform a full range of exploration work

One of the leaders in implementing innovative processing technologies
- Dedicated R&D centres
- Experienced management and a team of industry experts

One of the fastest growing gold mining companies
- A strategy to grow through exploration and R&D, maximising shareholder equity returns
- A pipeline of exploration and development projects

A responsible business contributing to the local economy
- A significant regional employer
- One of the largest contributors to the regional budget

01


02


03

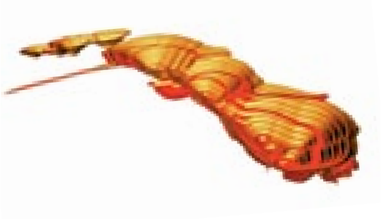

01 Laboratory technician at Irgiredmet, one of the leading research institutes in Russia. The centre was founded more than 140 years ago and has been part of the Group since 2006.

02 Sample preparation for atomic absorption at one of the Group's six state-accredited laboratories.

03 Employees at the Group's flagship mine, Pioneer. The mine produced 359,100oz of gold in 2011, a 56% increase compared with 2010.

Petropavlovsk tomorrow:

A global leader of the gold mining industry, distinguished by:
- Operational excellence
- Sustainable development
- Exploration and innovation
- Shareholder returns and social responsibility



Cover image
3D image of an open pit at the NE Bakhmut high-grade ore body at the Group's flagship Pioneer mine.

Who we are

Petropavlovsk is a leading Russian gold producer with a strong growth profile. The Group's success to date has been based on a robust development strategy, scientific expertise and a knowledgeable and experienced management team. The Group has a quality asset base, a wealth of knowledge of the Russian and global mining industry and experience in identifying and developing profitable projects. The Group's objective is to create long-term shareholder value through the discovery, acquisition, and development of natural resources.

What we do

Petropavlovsk's strategy is to foster sustainable growth through the acquisition of low-cost projects for in-house development at competitive costs and in competitive timeframes. This strategy is based on the Group's technological know-how and managerial ability to be at the forefront of the latest industry trends. Following this strategy, the Group has created a strong record of mine development in remote areas using a dedicated network of R&D centres, which support and drive forward the further expansion of its business.

Gold producing projects

Hard-rock, open-pit mines in one of the leading gold mining regions of Russia. Cluster approach to mine development using synergies of projects located in close proximity

1 Pokrovskiy
2 Pioneer
3 Malomir
4 Albyn

The Group also operates a number of alluvial operations

Gold development projects

Projects expected to be brought into production in the short to medium term. Projects located in the Amur region and in other prospective regions of Russia

1 Petropavlovskoye, *Yamal region*
2 Visokoe, *Krasnoyarsk region*
3 Verkhne Aliinskoye, *Chita region*
4 Tokur, *Amur region*
5 Pressure Oxidation ("POX") hub, *Pokrovskiy*

Key exploration sites

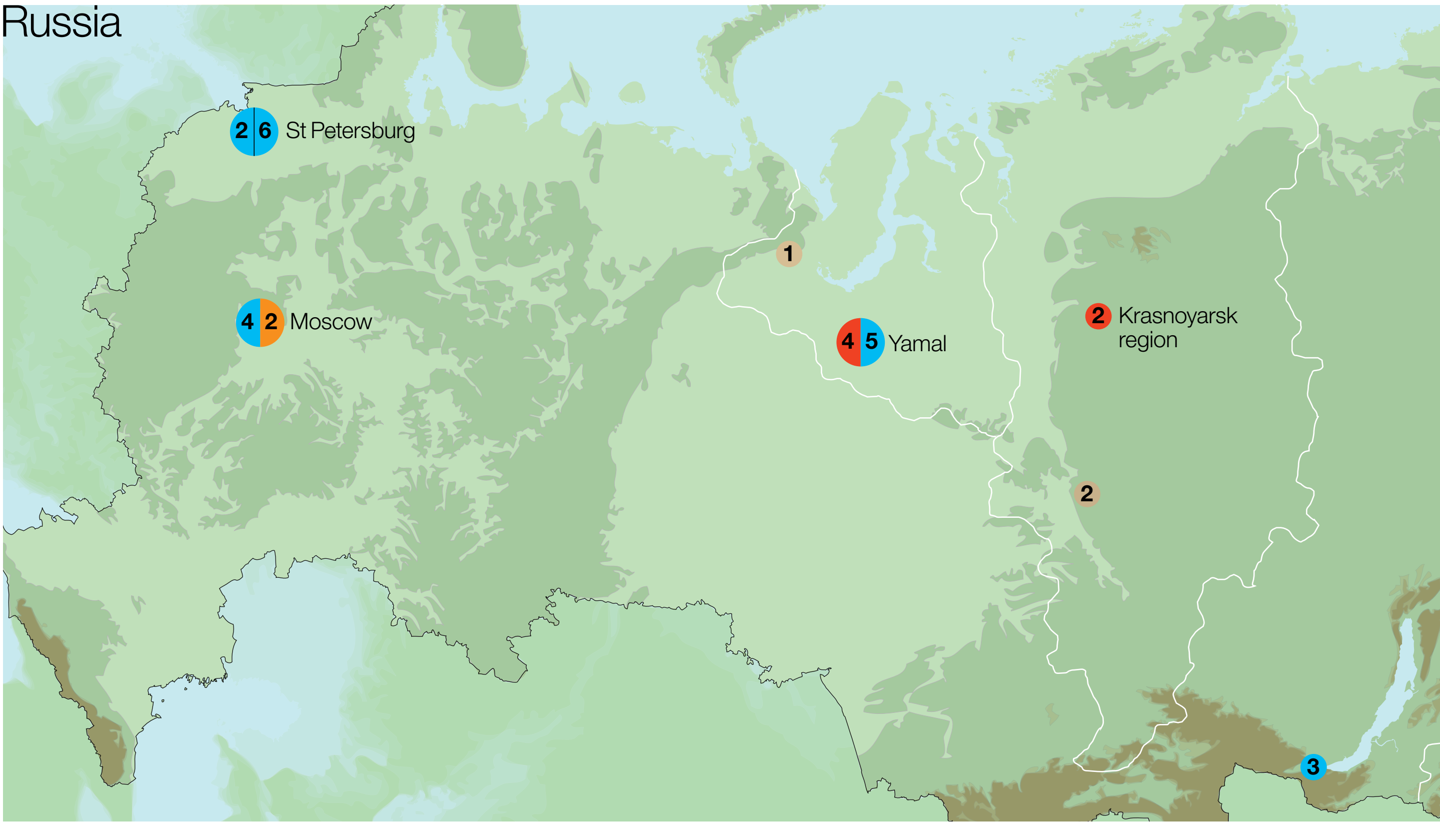
Exploration both at producing assets and greenfield sites, with a focus on expanding and improving the reserves and resources base of existing mines and identifying new growth clusters

1 Amur region
2 Krasnoyarsk region
3 Chita region
4 Yamal region

Management centres

A vertically integrated management structure across four corporate offices, consistent both with the Group's organisational structure and best practice in corporate governance

1 London, *UK office*
2 Moscow, *National office*
3 Blagoveschensk, *regional office*
4 Hong Kong, *IRC Limited – 65.6% subsidiary (not on map)*



Where we operate

The Group's operations are predominantly located in Russia and focus on the Amur region in the Russian Far East, one of the main Russian gold mining regions. The Amur region benefits from good infrastructural links and access to hydro-electric power. Favourable geological conditions account for the region's impressive mineral resource base and exciting exploration potential. The region boasts a strong mining tradition and a skilled workforce, who are part of the qualified personnel employed by the Group.

Our business model at a glance

Go to page 9 for our business model in full

R&D support base

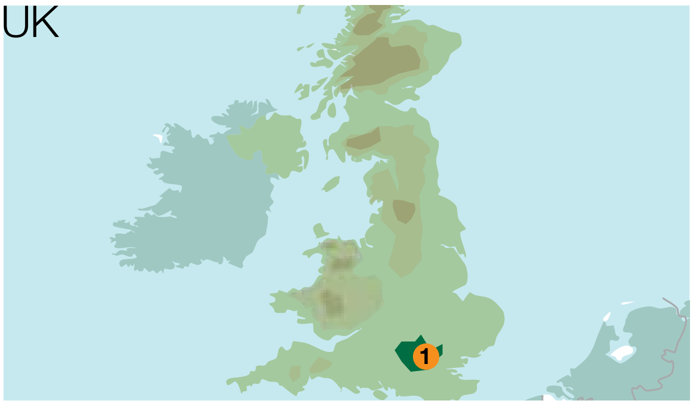
A network of R&D centres, engineering institutions, laboratories and a pilot test plant to support the Group's operations at every stage of development

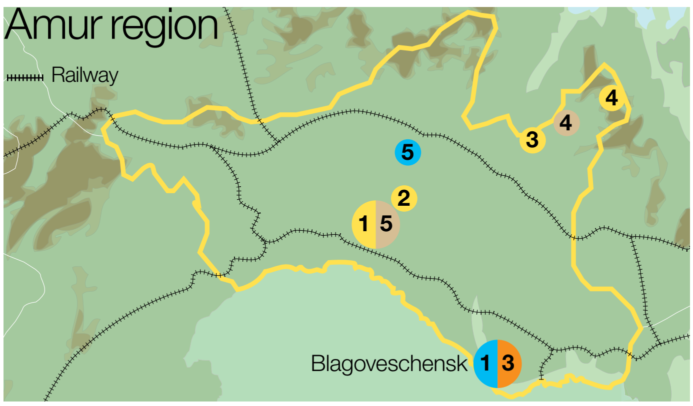
1. Pilot test plant, *Blagoveschensk*
2. Gidrometallurgiya Scientific Research Centre, *St Petersburg*
3. Irkutsk Research Institute of Precious Metals and Diamonds ("Irgiredmet")
4. PHM Engineering, *Moscow*
5. Laboratory network, *Amur region and Yamal*
6. Giproruda, *St Petersburg* (owned by IRC)

IRC

Petropavlovsk has a 65.6% interest in IRC, which is listed on the Stock Exchange of Hong Kong Limited. IRC is a producer and developer of industrial commodities.

Go to page 60 for more on IRC





About us

An overview of our performance in 2011 and an outline of our business strategy

Operations, development and performance in 2011

Financial review, performance at our mines, work on our key development projects and the performance and development of IRC's assets

Exploration, reserves and resources

A detailed breakdown of our reserves and resources base and an overview of our exploration strategy and successes in 2011

Management and governance

Biographies of our Board and featured experts and how we ensure our business continues to be well run according to the highest standards

Financial statements and supplementary information

Our financial performance for the year ended 31 December 2011, appendix, glossary of terms and where to go for further information

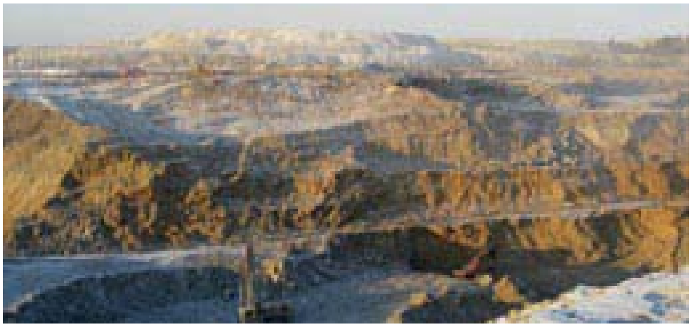
Our Gold Mining Assets at a Glance

Pioneer

Impressive performance at the Group's flagship mine with a 56% increase in production.

530 US$/oz

Total cash costs at Pioneer in 2011 were down 3% from 2010



Go to page 51 for more on Pioneer

Pokrovskiy

Solid 2011 performance with production of 91,800oz. Good progress made in the development of the new processing hub.

H2 2013

Commissioning of the POX plant remains on track

Go to page 48 for more on Pokrovskiy

Malomir

Planned increase in the plant's design capacity. Steady progress made towards refractory ore processing.

143%

Increase in production at Malomir compared with 2010

Go to page 54 for more on Malomir

Albyn

Commissioned ahead of schedule. Increase in reserves and resources has enabled further expansion.

2.24 Moz Au

Total Mineral Resources at Albyn, increased 22% versus 2010

Go to page 56 for more on Albyn

2011 at a Glance

See page 182 for definition of terms
See page 34 for Chief Financial Officer's Statement

Group revenue

1,262.5 US$ million

2011	1,262.5
2010	612.0
2009	472.3
2008	381.7
2007	226.4

Gold production

630,100 oz

2011	630,100
2010	506,800
2009	486,800
2008	401,600
2007	297,300

Underlying EBITDA

597.1 US$ million

2011	597.1
2010	195.5
2009	224.5
2008	136.4
2007	89.4

Earnings per share (basic)

1.24 US$

2011	1.24
2010	0.11
2009	0.98
2008	0.27
2007	0.48

Reserves and resources

of total Mineral Resources

24.6 Moz

	Resources	Reserves
2011	14.4	10.2
2010	14	9.1
2009	5.1	6.7

Mineral Resources include Ore Reserves

Resources Reserves

Average realised gold sales price

1,617 US$/oz

2011	1,617
2010	1,253
2009	975
2008	845
2007	668

Chairman's Statement
Peter Hambro
"A Billion Dollar Year"

"This is the first Annual Report in which we can measure our financial success in billions of dollars."
Peter Hambro
Chairman

Dear fellow shareholder,

Results
This year we more than doubled our total revenue to US$1.3 billion in 2011. Our EBITDA of US$0.6 billion was three times greater than last year's and our fully diluted earnings per share increased to US$1.23, some 11 times more than the previous year. The operating cash flow at US$0.3 billion is seven times higher than 2010.

In order to achieve this we moved record volumes of material, processed record amounts of ore and sold record amounts of gold at record prices. At the same time we managed to maintain control of operating costs; with total cash costs for hard rock gold production at US$586/oz rising by 7%, which is less than input cost inflation of approximately 20%. Total cash costs, including alluvial production, which is more dependent on energy, rose by 9% to US$662/oz. This cost control is all the more remarkable because it was achieved in spite of a 22% decrease in average grades processed at Pokrovskiy and Malomir RIPs. At Pokrovskiy – our maturing mine – in addition to a decrease in grades we had a 75% increase in the stripping coefficient but the cost per tonne of ore produced declined by 2% due to reduced overheads.

Our success can be explained in part by economies of scale, since we are now using much bigger equipment at Pioneer – our flagship operation – but I believe that a far more significant explanation is the fact that we are continuing to optimise the way we use such large-scale equipment.

The learning process involved a comprehensive review of operations followed by the development of a new planning and scheduling regime as well as better operating practices which have borne fruit. Following implementation of the programme, the daily volumes of mining works at Pioneer increased by 20% and we managed to increase volumes of total material mined by 61% year-on-year. Indeed, we have now caught up with all the waste stripping that fell behind schedule in 2010. The operating crews and their management deserve our thanks for their enthusiasm for the new regime and I hope that this can be replicated throughout the Group and carried on in future years.

A tighter hold on operational expenditure, staff numbers and wage levels was also a major contributor to our success. Having said that, our hardworking and loyal employees are still well rewarded when compared with other operations in the Amur region. All senior management also participate in our long-term incentive scheme which is tightly connected to Key Performance Indicators based on our strategy.

Most importantly, tight cost control and high gold price during the year have yielded record operating cash flows which, together with the credit lines available to us, allow us to complete our expansion programme.

Total revenue in 2011

1.3 US$ billion

To complement this background of operating success, we added a further 1.5Moz to our JORC Mineral Resources in spite of a depletion of 0.65Moz and we commissioned one new mine and two new processing lines. These in themselves are remarkable achievements and as usual were accomplished in-house, with minimal external assistance.

From this operating base we expect to produce 680,000oz of gold in 2012.

I am sure that you will be as grateful as I am to management and staff for making this possible.

Share price performance and dividend
It both saddens and perplexes me that the price at which the Company's shares change hands on the Stock Exchange reflects neither the achievements set out above nor the great potential that the Group has to continue to develop and grow its business.

I must assume that the market is placing a far higher discount on mining assets in Russia than I, after about 30 years of involvement with Russia, deem necessary. I also think that there are lasting impressions of the difficulties we encountered in 2010 that are hard to improve and that only successive years of successful operations can achieve.

It is my belief that people who invest in gold mining companies on the basis of their net present value do so on a mistaken assumption, unless they get to share in the cash stream. For this reason I have always been a strong advocate of a progressive dividend policy and, as soon as the capital expenditure demands from our exceptional growth abate, I hope that we will be able to be among those at the forefront of dividend payment in our sector. In the meantime, I am glad that we have been able to increase the total dividend for the year by 20% to £0.12 per share. I am conscious though that this does not match the exceptional growth in our after-tax earnings as much of our cash flow is still being ploughed back into the Group's development.

The move to the pressure oxidation process
In spite of our success this year, we still need to take account of the changes occurring in the mining environment that are likely to affect us and to look to our future based on these observations. Most notable of these changes is the decline in the number of new discoveries of gold of significant quality and, in particular, the reduction in the number of new, easy to treat, oxide – as opposed to refractory – deposits that are being found. Nowhere is this more true than in Russia and this fact is something of which we have been aware for some time.

For this reason, we invested substantially in the scientific evaluation of alternative methods of treating the harder-to-recover refractory gold that is much more plentiful in Russia. At the same time we continued, within our total exploration effort, the evaluation of the refractory gold occurrences that we had in our own portfolio of gold reserves and resources.

The result of this work – both metallurgical and geological – was the choice of pressure oxidation as the most effective method of releasing and recovering the large amounts of gold contained in our refractory deposits.

It is worth noting that pressure oxidation technology is not new. After all, it is what Mother Nature does all the time; the main difference being that we must do in a few hours what she does in a few million years. The process itself, which is also not new to the industry, having been utilised by other gold companies for more than 50 years, as well as being used in the base metal industry in the former Soviet Union, is straightforward. The gold-bearing ore is heated to 225 degrees centigrade in a pressure vessel containing pure oxygen at 35 times normal atmospheric pressure; the heat coming from the oxidation of the sulphur to which the gold particles are bound.

The prospect of doing so much extra work might seem daunting but, by using a simple flotation concentration process, we can separate a high proportion of gold-bearing material from the waste and by use of this method we only need to pressure oxidise a very small fraction of the ore. Accordingly, there is a cost saving compared to normal ore processing, where all the ore is treated. This counteracts, to some extent, the expense of pressure oxidation itself. In contrast with comparable processing methods, pressure oxidation has a low impact on the environment.

Our two main sources of refractory gold are Malomir and Pioneer and we decided that the most effective way to recover this was to do the concentration at site and to bring the highly-charged product to a processing hub at Pokrovskiy. Here we have the existing accommodation facilities, skilled labour, laboratories, smelting and storage facilities, a power supply and other logistical advantages. In addition, Pokrovskiy is located close to an excellent source of lime, which is needed to neutralise the sulphuric acid that is a by-product of the process.

A further advantage of the Pokrovskiy hub site is its proximity to the Trans-Siberian Railway. This is important for the medium-term future because, by building facilities capable of producing flotation concentrate at the many Soviet-era gold mines along the route of the westbound line, we would have access to otherwise unprocessed reserves left over from previous operations.

Pressure oxidation is, in our view, the way forward for the gold mining industry both in Russia and worldwide, and we are very proud of our achievements. These are now complemented by our association with Outotec (Finland) Oy, a leading established global provider of process solutions for the mining industry, with whom we have signed contracts for the development and implementation of our pressure oxidation plans. It is expected that the first gold from pressure oxidation will come from the Pokrovskiy hub in 2014.

New projects
The shift to refractory processing is, I am pleased to say, not the only thing in our future. The ores at our recently opened mine at Albyn are easy to process and we are already building the second stage of the processing facility there.

Elginskoye
Some 15km away from Albyn, we have had some promising intersections from a new gold discovery at Elginskoye. Although not sufficiently explored to be classed as reserves or resources, this deposit is generating considerable interest amongst our exploration teams who believe it has the potential to bring transformational changes to the Albyn project.

Nimanskaya
In June 2011, the Group won the auction for an exploration and extraction licence for the 308km^2 Nimanskaya licence area, located in the Khabarovsk region, some 90km south of Albyn. The area is well-known for having produced more than 4 million oz from alluvial gold mining since 1874, with 80% of the historical production coming from a 168km^2 area covered by our licence. Work completed by our predecessors between 1994–1998, identified mineralisation along 8km strike and up to 5km width, with grades ranging from 0.2–0.3g/t to 20g/t. Our predecessors' specialists envisaged potential for a 2Moz–4Moz resource at an 1.0–2.0g/t average grade.

Visokoe
Exploration work in 2011 proved 1.2Moz non-refractory gold reserves at Visokoe, our most advanced asset in the Krasnoyarsk region. In addition, we have two other promising early stage licences on Yenisey Ridge, also in the Krasnoyarsk region, which has been the number one gold producing region in Russia for more than a decade and hosts Polyus' Olimpiada.

With a favourable geological setting and numerous indications of extensive gold mineralisation found within this area we have high expectations of good results from exploration work planned for 2012.

Exploration
Exploration is key to our business and this year our success in increasing our total reserves and resources from 23.1Moz to 24.6Moz notwithstanding 650,000oz depletion, is testament to the good work that the exploration teams have done. From an economic point of view, it is good to know that so many of the new ounces are within production distance of our existing plants, are mostly non-refractory and are of higher grade than the average life-of-mine grades nearby.

IRC
Good progress has been achieved by our iron ore subsidiary, IRC: a maiden operating profit – something that they should be rightfully proud of – and success in undertaking the development of Kimkanskoye and Sutarskoye which, I believe, will bring us significant value in a major new supplier of one of the raw materials most needed in China.

Management
Dr Pavel Maslovskiy, our Chief Executive Officer, our founder and my business partner became a Senator and Member of the Federation Council of Russia (the Upper House of the Russian Parliament). For this reason he has retired from his executive role with the Group but remains as our unpaid Honorary President and we are grateful for the continuing advice and support that he will give us.

Sergey Ermolenko, who has been at Pavel's right hand since the Group was founded in 1994, has kindly agreed to take over the Chief Executive Officer role and I welcome him as a Director of the Company.

Brian Egan, our Chief Financial Officer, has decided to return to his native Ireland and thus to leave us shortly after the publication of the Annual Report. Brian has done an excellent job both at Aricom and with Petropavlovsk and we will miss his input.

Andrey Maruta, who has previously served as Finance Director, Russia, has kindly agreed to replace Brian Egan as Chief Financial Officer. Before the merger with Aricom plc in 2009, Andrey served as Chief Financial Officer of Peter Hambro Mining Plc.

Non-Executive Directors
Dr David Humphreys joined us in August 2011 as a Non-Executive Director to replace Peter Hill-Wood who retired in May 2011. David has already made a valuable contribution to the Board with his extensive relevant experience in the global mining industry through his work for mining companies and as a consultant and academic.

Rachel English joins the Board with effect from 28 March 2012 and will bring a wealth of knowledge and experience she has amassed in the global energy sector, in particular her first-hand experience of developing projects in challenging business environments into profitable enterprises, should be invaluable. I believe that her appointment will bring a new perspective to the Board as the Group moves into the next phase of its future development.

Challenges
The year end, and the consequent publication of the Annual Report, is a waypoint in the course that I and the Board must navigate for the benefit of the shareholders, the staff and other stakeholders. Economic uncertainties, inflation, gold price volatility, the prospect of sovereign default, threats of war, political unpredictability and many other turbulent events combined this year to make navigation a challenging task. The impact of external pressures on our business in 2011 shows, once again, the importance of having a clear course to steer and, at the same time, planning both to take advantage of the opportunities presented and to take precautions against the unexpected buffetings and inclement weather along the way.

I am glad to note that we have reached this year's waypoint with record results but I do not foresee any diminution in the challenges that beset us last year.

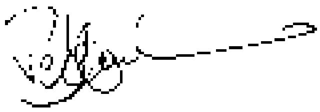
Full delivery of the pressure oxidation process remains a major implementation challenge but I believe that the extensive scientific research work that has already been carried out and our involvement with Outotec do much to manage risks involved with the project.

Our capital expenditure programme has been, and remains, extensive; and encompasses pressure oxidation, construction of the first processing line at Albyn and the bringing forward of the second processing line at Albyn, the fourth line at Pioneer and the flotation plant at Malomir. For this reason, the level of our net debt is relatively high, which to an extent is opportunistic in order to take advantage of the current high price of gold. Managing our treasury and the leveraged exposure to the gold price is another major challenge.

The road ahead
2012 has started well for the Group and the prospects for the US Dollar price of gold, in my opinion remain good. I say this because I believe that there is little sign of a lasting solution to the financial turmoil that marked the previous year.

I remain confident that we will have another year of continued production growth.

Finally, I should like to thank you, as shareholders, for the confidence that you place in our management and, above all, to thank our executives and staff for the truly magnificent contribution they have made.



Peter Hambro
Chairman

Honorary President's Statement
Dr Pavel Maslovskiy

"2011 was a very successful and important year for the Group. Our management team effected an impressive improvement across our operations following the challenges we encountered in 2010, as was demonstrated by the strong progress in our development projects and a further year-on-year increase in our gold production."
Dr Pavel Maslovskiy
Honorary President

These achievements will stand us in good stead for 2012 and beyond, bringing, I believe, benefits to all the Group's stakeholders – from our investor base in London and worldwide to our employees in the Amur region.

Our Group is recognised in the Amur region not only for its remarkable growth, but for our commitment to operating responsibly and sustainably; providing fair wages and opportunities for career development and social mobility. We remain the largest gold producer in the Amur region, itself a key gold producing region of Russia, and we remain one of the region's largest employers. Over the years, our Group has been a major contributor to the growing prosperity of this strategic area of Russia and to enhancing the quality of life of its communities.

In light of this, our team was very proud when several key figures in our Group were elected to the local parliament in 2011 – myself included as a Senator and Member of the Federation Council of Russia, representing the Amur region. I am truly honoured by this appointment and consider it to be public recognition of the significant contribution the Group has made to the development of the Russian Far East and the importance of our business activities for the region. I hope that, with my long-standing knowledge of the region, this position will enable me to become an ambassador for the Amur region and for local business, including other local mining companies, tackling some of the major challenges we currently face, including the amending of existing mining legislation and improving business practices.

However, my nomination as a Senator does not mean that I am no longer involved in the life of the Group. In spite of my new role, I am still passionate about this business which I co-founded 18 years ago and I am planning to support the Group by remaining available in an advisory capacity as Honorary President of the Board as we prepare for a new exciting stage of development for our Group.

As an integral player in global economics, Russia cannot avoid facing the challenges the modern global economy is experiencing today. These challenges have put a lot of pressure on costs incurred both from mining our existing sites and developing new projects. Our team is responding to these challenges by implementing the new technologies and re-educating our mining teams in order to improve mining efficiencies and enhance our processing capacities. This approach is in line with the latest policies of the Russian Government, which has recently strongly reiterated its commitment to support innovative business projects and the sustainable development of remote regions. Our team is proud to contribute to building a more powerful and prosperous country and to strengthen the local economy.

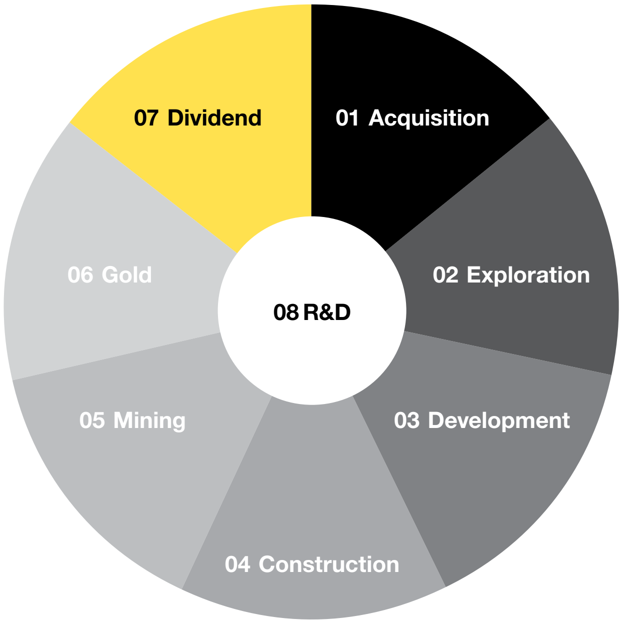
We are also proud to be at the forefront of the latest technological developments in the mining industry by introducing pressure oxidation ("POX") technology for gold processing – not yet available in Russia. In contrast to comparable technologies, POX should provide less operational and environmental risk and higher processing recoveries. As such, we believe that this project could bring a significant boost not only to our production, but also to the Russian gold mining industry.

We look forward to the Group continuing to thrive in 2012.

Dr Pavel Maslovskiy
Honorary President of the Board

Our Business Model

Petropavlovsk's activities encompass the full range of the gold mining cycle, providing the Group with a number of financial, operational and competitive advantages.



01 Licence acquisition
The Group uses its exploration expertise to seek out competitively priced greenfield sites within favourable geological conditions and to explore promising areas adjacent to existing projects.

02 Greenfield and brownfield exploration
A range of geophysical and geological methods, supported by a state-accredited laboratory network, has enabled the Group to continuously increase its reserves and resources base.

03 Project development
Project design, feasibility studies and processing parameters are defined in-house to ensure the efficient and rapid development of assets.

04 Engineering and construction
Dedicated in-house engineering and construction teams specialise in the design, development and construction of industrial facilities. This has resulted in the Group commissioning four gold mines and five expansion programmes to date.

05 Mining and processing
Mining is conducted by open-pit methods at the Group's four gold mines. Ore is processed on-site using direct cyanidation.

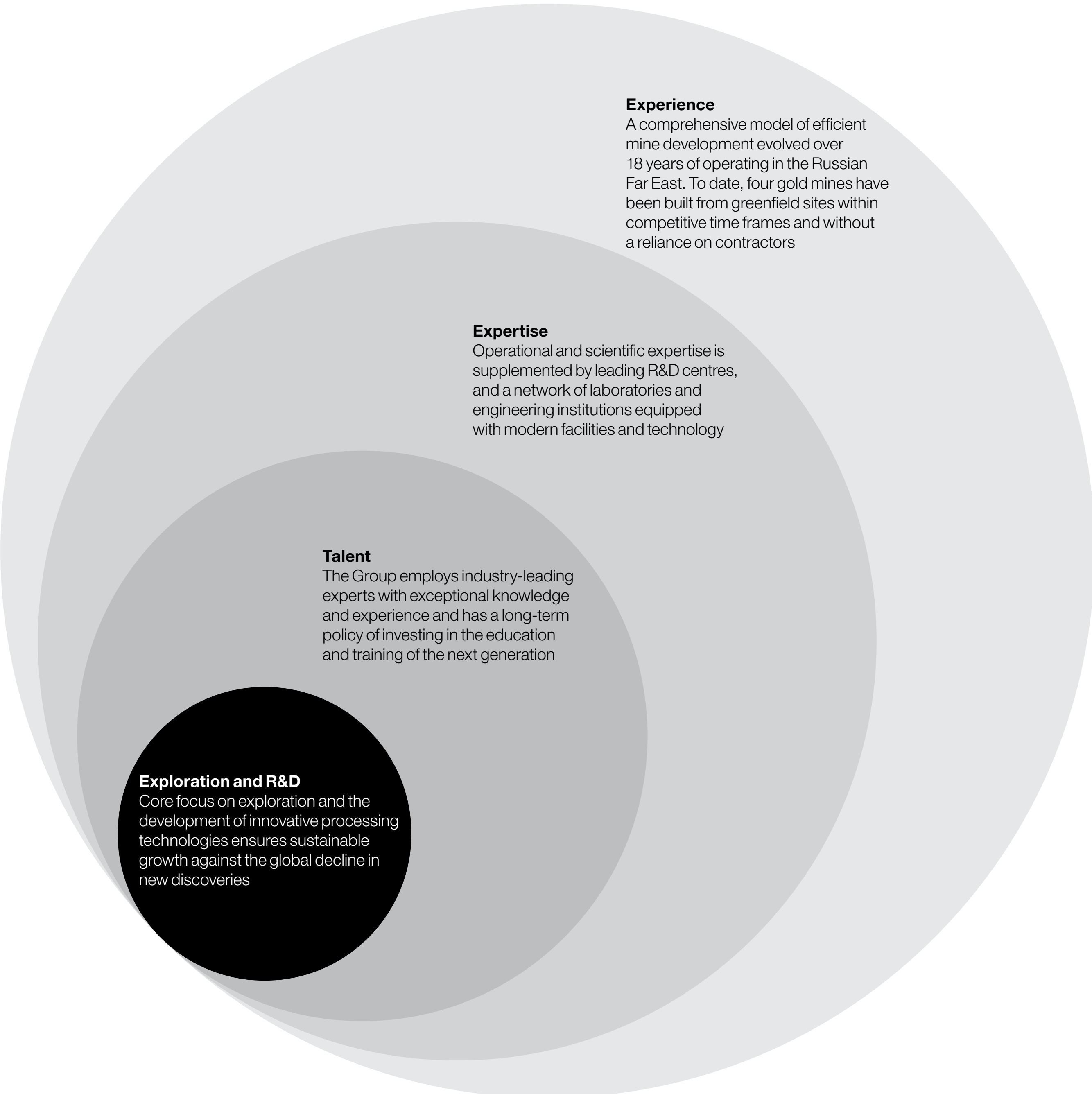
06 Gold production
630,100oz of gold were produced in 2011 – the ninth year of consecutive growth in gold production.

07 Dividend and re-investment
The Group is committed to providing shareholders a return on their investment in terms of regular dividend payments and capital re-investment to drive future growth.

08 Research and development
The use of cutting edge technology at top Russian R&D centres combined with the knowledge and experience of renowned industry experts provides support to the Group across all stages of the gold mining cycle.

Our Strategy
Harnessing Growth through Exploration and R&D

Our mission is to become one of the leaders of the global gold mining industry using innovative technologies, delivering superior shareholder return and sustainable growth.



Strategic priority	2011 key achievements	Future plans	Further information
1			
Greenfield exploration Identifying new growth clusters through the acquisition and exploration of undeveloped assets based on Group geologists' comprehensive knowledge of the geology of target areas	– Several prospective targets identified at the Elginskoye licence area have the potential to substantially increase Albyn's mine life – 1.2Moz of Reserves defined at the Visokoe deposit, acquired as a greenfield site in 2010 – 0.34Moz of Resources defined and a pre-feasibility study commissioned at Taldan, a licence area in the west of the Amur region – *Measured* and *Indicated* Resources established and a feasibility study under development for the Verkhne Aliinskoye deposit in Chita	– Continuation of exploration at Elginskoye during 2012 to establish an initial resource estimate – A feasibility study at Visokoe to be finalised during 2012 with a view to starting production in the short- to medium-term – Further exploration of the prospective Osezhinskaya licence area, which neighbours Taldan, to explore synergies of development – 2012 scope of works aimed at upgrading Mineral Resources at Verkhne Aliinskoye into JORC-compliant Ore Reserves	See operational and financial risks, pages 79 to 83 Visokoe: page 59 2011 Exploration Report: page 62 Verkhne Aliinskoye: page 58
2			
Brownfield exploration Exploration around existing mines to maximise projects' net present value by increasing the reserves and resources base and improving the quality of reserves	– 11% increase in total gold Ore Reserves, offsetting 2011 depletion – 26% uplift in Ore Reserves at Albyn – New zones of mineralisation discovered at Pioneer, including a high-grade non-refractory zone – Drilling at Malomir indicated the presence of further ore zones – Exploration results from satellite deposits at Pokrovskiy prolonged the life of mine	– Further work at targets identified in 2011 to upgrade all new discoveries to Reserves – A comprehensive 2012 exploration programme at the main Albyn site and adjacent areas – Focus on following key geological trends identified in previous years – Focus on identifying further non-refractory material – Focus on reassessment of high-grade resources at the bottom of the pit	See operational and financial risks, pages 79 to 83 2011 operations reports: pages 48 to 57 Reserves and resources: pages 66 to 75 Exploration Report: pages 62 to 65
3			
Investment in R&D The Group is using leading Russian industry specialists and cutting edge technology at its R&D centres to develop cost-competitive processing solutions for ores not suitable for conventional processing methods and to seek to continually improve efficiencies at the Group's current operations	– Completion of the feasibility study for the Group's POX hub – Extensive metallurgical test work performed at the Group's R&D centres, laboratories and pilot test plant	– The first flotation plant at Malomir on track for Q4 2012 commissioning – The POX processing hub at the Pokrovskiy site is on track for H2 2013 commissioning	See operational and financial risks, pages 79 to 83 POX hub: pages 44 to 47

Our Strategy in Focus: Exploration

- Four deposits explored from scratch and converted into profitable mines
- Year-on-year growth in the Group's gold reserves and resources base
- Continuous improvement in quantity and quality of the reserve base at producing mines

Investment in exploration: key to the Group's success to date and its future development

- State-accredited laboratory network supporting exploration activities at every stage
- Local knowledge strengthened by strong expertise and comprehensive experience

Below: Chalcedon specimen at the Group's central laboratory in Blagoveschensk, one of six state-accredited Group laboratories.

Our Strategy in Focus: Exploration continued

Petropavlovsk is one of the leading explorers in Russia. The Group's emphasis on exploration has been instrumental in its success to date, providing a sustainable pipeline of projects which have ultimately underpinned the Group's growth profile.

Over the past three years, the Group has spent a total of US$195.7 million on exploration at its gold projects. As a result, *Proven* and *Probable* Ore Reserves increased by 51% to 10.2Moz and the Group's total Mineral Resources more than doubled to 24.6Moz (notwithstanding depletion).

A considerable amount of this uplift is attributable to exploration at existing mines: *Proven* and *Probable* Ore Reserves at Pioneer, Pokrovskiy and Malomir increased 36% to 7.1Moz compared with the estimate as of 1 January 2010 notwithstanding depletion of 1.14Moz at these projects.

The Group anticipates a further increase in its gold reserves and resources due to further exploration of the discoveries made and targets identified in 2011.

The Group's team of approximately 1,550 geologists is headed by Nikolai Vlasov, a former Head of the Soviet Union's programme for evaluating gold reserves in the Russian Far East. The Group has been able to capitalise on his experience and detailed knowledge of the Amur region's geology to identify new exploration targets and to pass his insight on to the next generation of Group geologists.

The Group's geological team is supported by a network of six state-accredited laboratories which conduct assaying, metallurgical testing and sample analysis to establish the gold grade, mineralogical composition and geological properties of the ore and the most suitable method and parameters for cost-efficient extraction and processing.

01

02

03

01 Samples prepared for mineralogical analysis
The Group has a network of six state-accredited laboratories which support 100% of its analytical needs.

02 Map of gold deposits and occurrences in the Amur region at Regis, Blagoveschensk
Group subsidiary, Regis, performs a spectrum of geological exploration work including geological mapping, drilling, resource estimates and open-pit optimisations.

03/07 Mineralogical analysis
Group laboratories use a wide range of analytical methods, including: fire assay, atomic absorption spectroscopy and mineralogical analysis, x-ray crystallography and physical property determinations.

04 Pit shell of NE Bakhmut pit designed by the Group's engineers
Discovery of a high-grade ore body at NE Bakhmut in 2010, confirmed the Group's belief in the exploration potential of Pioneer. The Group discovered a further high-grade pay shoot in 2011 on the ore body's north-east extension and the area remains prospective.

04


05


05 Atomic absorption analysis at the Pokrovskiy laboratory
Dissolving gold samples using aqua regia and subsequent analysis of the solution is a method widely used to detect the presence and quantity of gold in a sample. The Group's laboratories analysed c. 700,000 gold samples in 2011.

06 Channel sampling and mapping a pre-strip at Malomir
Since acquiring the Malomir deposit as a greenfield site in 2003, the Group's exploration team has defined 3.94Moz of Ore Reserves and 4.96Moz of Mineral Resources. The mine is now in production.

07


06


Our Strategy in Focus: R&D

- Continuous work improving current processing methods and techniques
- Research and development of new processing technologies for complex ores
- Leading industry specialists equipped with state-of-the-art research facilities

Investment in innovation using the Group's leading R&D centres is crucial to its ambition to become a leader in the global gold mining industry

- Unique metallurgical plant for testing a range of modern processing methods
- All-encompassing exploration, engineering and project design for mine development

Below: testing of Malomir flotation concentrate using autoclave technology at the Group's unique metallurgical test plant in Blagoveschensk. The plant enables the Group to replicate processing operations on a smaller scale.

Our Strategy in Focus: R&D continued

01

02

01 Soil sample analysis
The Group closely monitors discharges to air, water and soil to minimise the environmental impact of its operations.

02/03 Autoclave equipment and research into extraction methods at Gidrometallurgiya
The R&D centre is developing and testing high-pressure and temperature autoclave technologies to process refractory ores.

04 Pilot test plant
Built in 2009, the plant enables the Group to test all major modern technological methods of gold extraction and is used for metallurgical tests.

07

05 Test facilities at Irgiredmet
140 years of experience in gold metallurgy have established Irgiredmet as one of the leading research institutes in Russia. The centre has been part of the Group since 2006.

06 PHM Engineering, Moscow
The Group subsidiary conducts strategic mine planning, detailed technical design, feasibility studies and facilitates technical permitting.

07 Assay lab technician at work
Over 1,030 technicians, engineers and scientists work across the Group's laboratory network and R&D centres.

06

05

03


04


Investment in research, scientific development and innovations has long been seen by management as essential for the future of the Group.

The Group began to build a technical and scientific support base simultaneously with the launch in 1999 of its first mine, Pokrovskiy, when the Group's first testing and analysis laboratory was commissioned. With the subsequent growth of the Group, its technological support base has expanded in line with the Group's needs and strategy.

Today the Group has a network of state-accredited laboratories, R&D centres and engineering institutions. Its facilities can conduct a spectrum of work including metallurgical tests, bulk sampling, numerous types of analysis, project design and evaluation, feasibility study preparation and mine planning.

With modern equipment and leading industry specialists, the Group is in a strong position to implement the most advanced, cost-effective and low environmental impact processing technologies, taking advantage of the latest technological developments in the Russian and global mining industries. Group specialists are regularly called upon as leading industry experts at various projects around Russia.

In 2009, the Group launched a metallurgical test plant, the only one of its kind in Russia. The plant gives Petropavlovsk the flexibility to test various processing methods for gold extraction in an environment approximating real production and enables the Group to introduce innovative processes and set the most cost-effective parameters at its operations. This research has been instrumental in preparing the design of the new processing hub at Pokrovskiy, reducing the project's risks and defining the processing parameters.

Delivering our Strategy

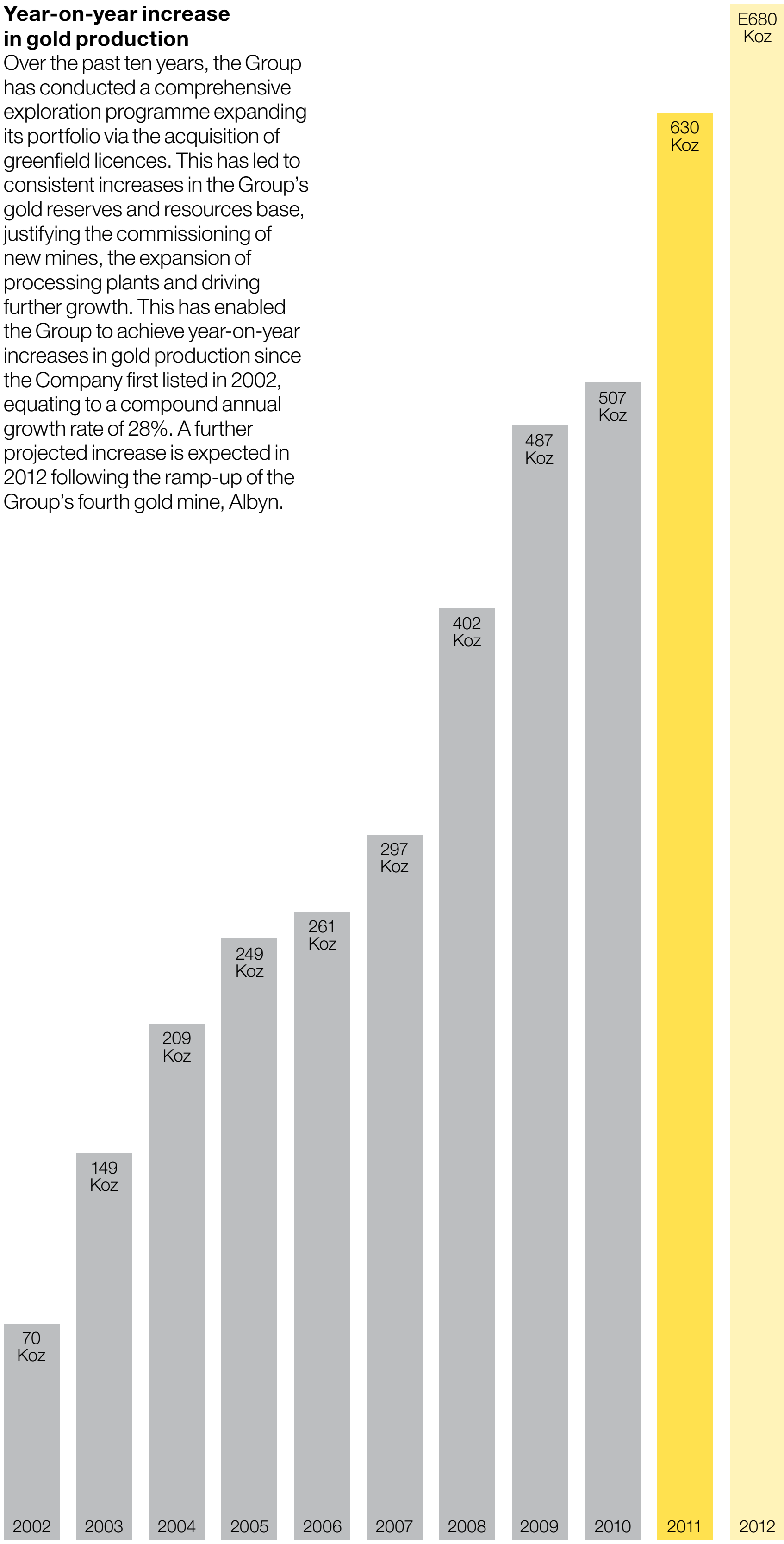
Petropavlovsk has grown rapidly from small beginnings 18 years ago, building a strong team of leading industry experts and a comprehensive scientific support base which uses up-to-date analysis methods and equipment. This has contributed to a robust model of efficient development of gold mineral resources into modern operating mines within competitive timeframes.

The structure of the Group enables employees working across various locations and at all levels to take responsibility locally. This encourages an entrepreneurial spirit and a culture of innovation and creates strong links between the Group's operations and local communities.

The success of this approach is demonstrated in the Group's track record of sustainable growth. Over the past ten years, the Group has commissioned four new gold mines and has undertaken five expansion projects, which has enabled it to increase gold production year-on-year. This has ultimately transformed the Group from one greenfield project into a multi-mine operator and one of the leading gold producers in Russia.

Year-on-year increase in gold production

Over the past ten years, the Group has conducted a comprehensive exploration programme expanding its portfolio via the acquisition of greenfield licences. This has led to consistent increases in the Group's gold reserves and resources base, justifying the commissioning of new mines, the expansion of processing plants and driving further growth. This has enabled the Group to achieve year-on-year increases in gold production since the Company first listed in 2002, equating to a compound annual growth rate of 28%. A further projected increase is expected in 2012 following the ramp-up of the Group's fourth gold mine, Albyn.



- Proven track record of developing assets in competitive timeframes
- 800% increase in gold production since first listing in 2002
- Projected further production rise to 680,000oz in 2012
- Four consecutive years of positive JORC-compliant Reserves and Resources upgrades
- A robust growth plan to take the Group into the future

2002

- One mine at an early production stage (Pokrovskiy) and one greenfield project (Pioneer)
- Year-round production begins for the first time with the commissioning of an RIP processing plant at Pokrovskiy
- Shares are admitted to trading on AIM

2005

- Acquisition of Albyn and the main Malomir deposit as greenfield sites
- Completion of the Pioneer feasibility study
- Major uplift in Russian Classification reserves and resources through greenfield exploration

2006

- Successful expansion of the Pokrovskiy RIP plant
- Indications of two further deposits within the Malomir licence area – subsequently proven through further exploration
- Research into the processing of refractory ores commences and Group acquires leading Russian R&D centre, Irgiredmet

2007

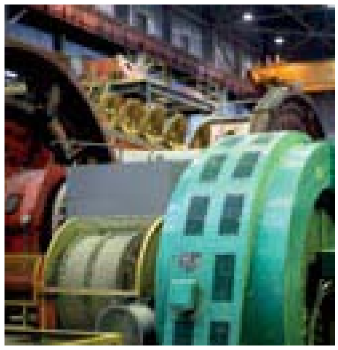
- Discovery of the high-grade Andreevskaya ore zone and completion of the start-up production facility at Pioneer
- 77% increase in C_2+P_1 Category reserves and resources at Malomir
- Independent technical audit confirms Group reserves and resources in accordance with the JORC Code (2004)

2008

- First commercial production from Pioneer exceeds the Group's original target
- R&D centre Gidrometallurgiya established by the Group
- High-grade non-refractory Quartzitovoye deposit found at Malomir

2009

- Successful expansion of the Pioneer plant; good progress with construction at Malomir; construction commences at Albyn
- Pilot test plant is launched, complementing rapidly-expanding R&D base
- Share listing moves to LSE Main Market and becomes part of FTSE 250

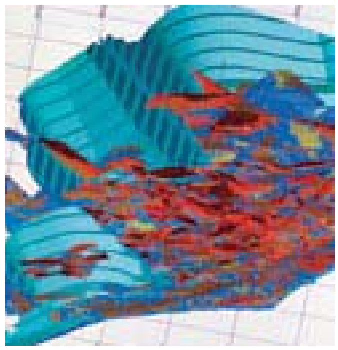


2010

- Further expansion of the Pioneer plant delivered ahead of schedule
- Expansion into new regions with key acquisitions in Krasnoyarsk and Chita
- Malomir is commissioned just five years after the main licence was acquired

2011

- The fourth consecutive year of increases in JORC Code (2004) reserves and resources
- Successful expansion at Malomir and the commissioning of Albyn
- Completion of the feasibility study for the new POX hub at Pokrovskiy



Operating Responsibly

The Group recognises that much of its success to date is attributable to its commitment to act in a safe and responsible manner and to build its team organically through the career

Focus on health and safety

Alexander Davidenko
Head of Occupational Health and Safety

See pages 15 to 17 of the Sustainability Report 2011 for further details

Petropavlovsk believes that every employee has a right to work in a safe environment and is committed to providing a rigorous approach to occupational health and safety ("OH&S"). The Group is striving to create an embedded safety culture across its operations with the objective of minimising the risk of accidents and occupational illness, and aiming for zero fatalities.

The Group has systems in place to ensure that all accidents are recorded and all serious accidents are investigated. This data is then subject to close scrutiny by senior management, the Executive Committee and the Board to ensure adequate health and safety measures are in place.

All staff at the Group's operations have the opportunity to raise concerns regarding OH&S with senior management.

There are medical facilities and medically trained staff on duty at all Group operational sites, and ambulances and helicopters are available for emergency evacuation to regional or national hospitals. All medical staff undergo regular training and testing.

The Department of Industrial Safety and Auditing conducts internal health and safety audits of the Group's operations on a regular basis. These audits are supplemented by external audits from internationally recognised bodies. Governmental authorities also visit each of the Group's operations approximately three times a year to inspect explosives storage and industrial facilities and to check health and safety procedures and documentation.

A comprehensive and on-going safety training programme is conducted by a dedicated branch of the Department of Industrial Safety and Auditing and supplemented by external workshops.

All equipment and materials used in the construction of Group operations are designed to safety specifications to be resilient to changes in temperature and pressure.

The Group operates in accordance with Russian OH&S legislation.

Focus on education

Dr Pavel Maslovskiy
Honorary President

See pages 18 to 19 of the Sustainability Report 2011 for further details

Petropavlovsk has a long-standing programme of investment in educational projects and institutions in the regions where it operates.

The Group recognises that one of the problems for the global gold mining industry is a shortage of potential employees with the requisite specific skills. This is also a challenge for Petropavlovsk, particularly as the size and number of its operations increases and new technologies are implemented.

The Group seeks to mitigate this by consistent and purposeful investment in regional educational programmes. This approach ensures that the Group will be able to continue its culture of innovation. In turn, this provides local people with career opportunities and improved prospects in regions with historically high levels of unemployment.

In 2007, the Group established the first, and currently the only, private vocational college in Russia: the Pokrovskiy Mining College. The college currently offers students the opportunity to enrol in one of 46 courses in mining and metallurgy. Each course is designed in consultation with Group management to ensure that it is directly suited to the Group's human resources needs. As part of this, the college is currently training future Group technicians and shift managers to work at its innovative pressure oxidation hub at the Pokrovskiy mine. To date, more than 570 students have graduated from the college and the majority have found employment within the Group.

The Group is collaborating with a local university in Blagoveschensk, the largest city in the Amur region, on an advanced course in analytical chemistry for students studying in their final year. The course covers the theoretical analysis and practical work involved in metallurgical sample analysis used in Group laboratories. In addition, the Amur State University, in collaboration with the Group, is running two new courses at its department of geology and Mineral Resource management.

The Group remains committed to broadening the qualifications of its employees to ensure they are trained to the highest standard and that their career development opportunities are widened. In line with this commitment, 92 employees attended courses at, or received qualifications from, higher educational institutions in 2011.

development opportunities and the educational policies supported by the Group. The Group strives to be an employer of choice and a responsible and sustainable business.

Focus on the environment

Vera Usova
Head of Environmental Safety

See pages 28 to 36 of the Sustainability Report 2011 for further details

The Group believes that mining companies have a particular responsibility to protect the environment and to mitigate the impact of their operations.

Effective environmental management has always been a priority for Petropavlovsk. This is reflected by the Group's good environmental record since its first processing plant was launched ten years ago.

The Group is committed to using its resources efficiently and managing the chemicals it uses responsibly. The Group endeavours to minimise any impact on biodiversity by ensuring wildlife and local habitats are protected at all stages of mine life. The Group is taking necessary measures to reduce or avoid pollution.

The Group uses a range of measures to monitor and control discharges to air, soil and water. Monitoring data is collated on a regular basis and samples are examined in the Group's laboratories, which are accredited by the state.

The Group manages its operations in accordance with stringent Russian environmental legislation. Monitoring data is closely analysed by the Russian authorities to confirm compliance.

The Group is going beyond a compliance-based approach to environmental management by aligning its current practices with internationally recognised standards, such as the International Cyanide Management Code.

Representatives from the International Finance Corporation, who are shareholders in the Group, visit the Group's operations annually to monitor its commitments to environmental standards.

Petropavlovsk is working towards ISO 14004 Certification on a voluntary basis.

The Group's commitment to environmental protection is also shared by its executives: an environmental report is prepared on a monthly basis for the Executive Committee and for each Board meeting.

Focus on community and workforce engagement

Uliana Levanova
Head of Welfare and Community Liaison

See pages 12 to 14 and pages 20 to 27 of the Sustainability Report 2011 for further details

Petropavlovsk views its employees as its most valuable asset and instrumental in its success to date. Since its foundation, the Group has strived to be an employer of choice to attract and retain the best talent in the Russian Far East by offering competitive wages, high-quality equipment and training, a safe working environment, good living conditions and opportunities for career development. The Group is one of the largest employers in the Amur region.

The Group recognises that it plays an important role in the local economy and endeavours to use local businesses to provide support services for its operations, which in turn improves the prospects and quality of life for local communities and benefits the Amur region as a whole. The Group is a major tax payer in the Amur region.

Petropavlovsk gives a high priority to maintaining its good relations with local communities. The Group is committed to ensuring that local communities and administrative bodies are actively involved in its development plans and any concerns are adequately addressed in public consultations. The Group continues to engage with local communities and address their concerns throughout the life of operations.

The Group is committed to promoting the social and economic development of the region, and the quality of life of those who live in it, both by the widening scope of the Group's operations and with the assistance of the Petropavlovsk Foundation for Social Investment (the "Foundation"), a charitable organisation founded in 2010 to streamline the Group's charitable donations into one investment vehicle.

The Foundation was established to centralise the Group's existing charitable programmes in order to ensure funds would be better targeted to relevant causes, stimulating the sustainable socio-economic and cultural development of local areas and in turn, improving the quality of life in local communities.

Since its formation, the Foundation has donated approximately 107 million Roubles to charitable causes in regions where the Group operates.

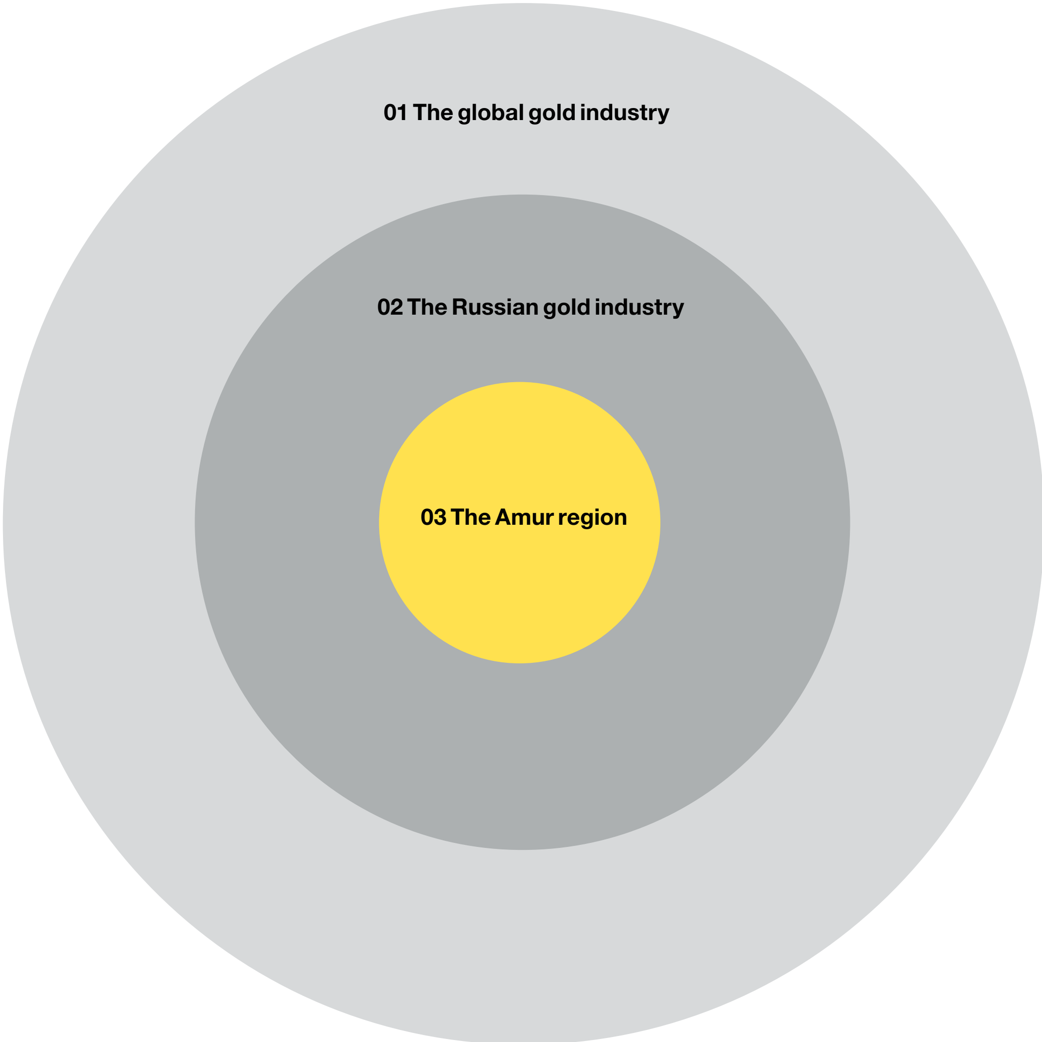
Gold: Our Market Position and Competitive Environment

During a year of record gold prices, global gold mining production increased by 4%. This modest increase was due to worldwide depletion of high-grade reserves and a lack of new projects coming onstream.

Russia was no exception, with only a 3.6% increase in its gold output, with Petropavlovsk's production accounting for a significant proportion of this growth and an even higher proportion of the increase in Amur region gold production. The Amur region recorded an impressive 46% increase in gold output in 2011, of which 62% was delivered by Petropavlovsk.

Another trend dominating the gold industry in 2011 was the substantial increase in production cash costs due to inflationary pressures and a decline in high-grade deposits.

Against this backdrop, Petropavlovsk managed to demonstrate robust cost control with total hard rock cash costs increasing by a marginal 7% during 2011.



01 The global gold industry
The Group's strategy is to grow into a leading global gold miner

02 The Russian gold industry
Petropavlovsk is the second largest gold producer in Russia, with a sustainable growth programme supported by exploration and the development of innovative technologies

03 The Amur region
A regional mining champion, the Group is the largest producer and developer of gold assets in the Amur region

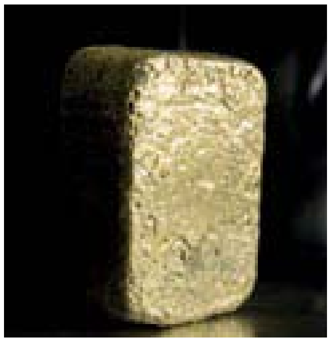
The global gold industry

Following a recent decline in new gold discoveries, the industry has failed to outstrip the depletion of operating mines, shifting focus to deposits and prospects previously deemed unfeasible due to high capital and operating costs.

- Supply is increasingly becoming constrained, as launching new projects becomes more complex
- Demand continues to be stimulated by strong growth from the emerging markets
- The industry is contending with the challenge of declining grades and a shift in production towards more geographically remote and/or politically challenging regions
- Mines are operating at increasingly larger scales to offset reserve grade declines and generate sufficient economic returns

4%
The 2011 increase in global gold mine production

9%
The 2011 increase in the gold price



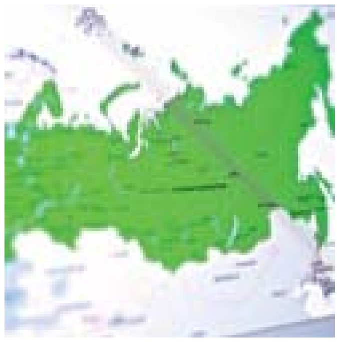
The Russian gold industry

Russia is one of the world's richest countries in terms of its mineral resources and was the fourth largest gold producer worldwide in 2011. Russia ranks in the top three countries globally for gold reserves and resources.

- Russia benefits from a skilled workforce and a long-established mining culture
- The top five Russian gold mining companies accounted for approximately one half of Russia's total gold production in 2011

214 tonnes
2011 Russian gold production

95 tonnes of gold
Acquired by the Russian Central Bank in 2011



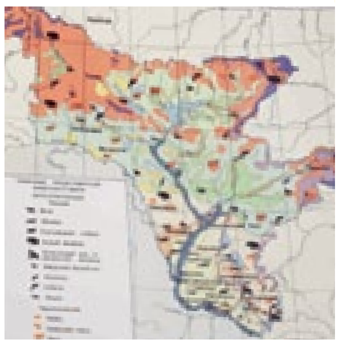
The Amur region

The Amur region is one of the richest and oldest gold producing regions, with a history of gold mining dating back to 1867.

- Petropavlovsk accounted for 62% of gold production in the Amur region in 2011
- The Amur region benefits from well-developed infrastructure, including ample hydro-electric power supply and well developed federal roads and railways, providing connections to neighbouring Russian regions and beyond

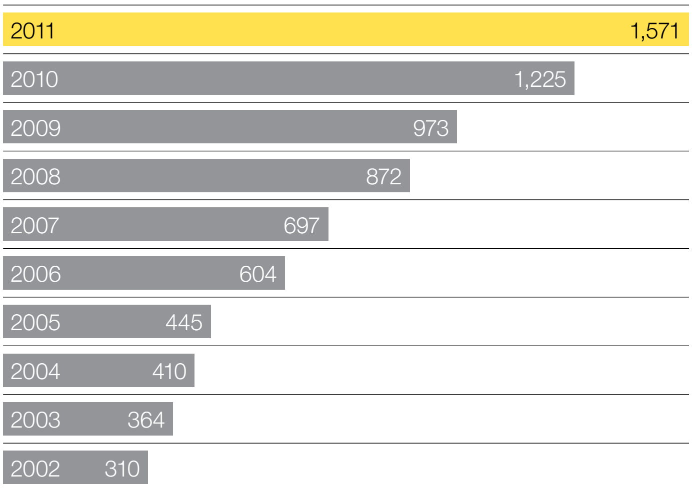
8.9%
Share of taxes paid by Petropavlovsk in the 2011 Amur region budget

11,000
Group employees in the Amur region



Gold: Our Market Position and Competitive Environment continued

The average annual gold price has risen steadily over the past decade (US$/oz)



Source: *The London Gold Market Fixing Limited. Data provided for information purposes only.*

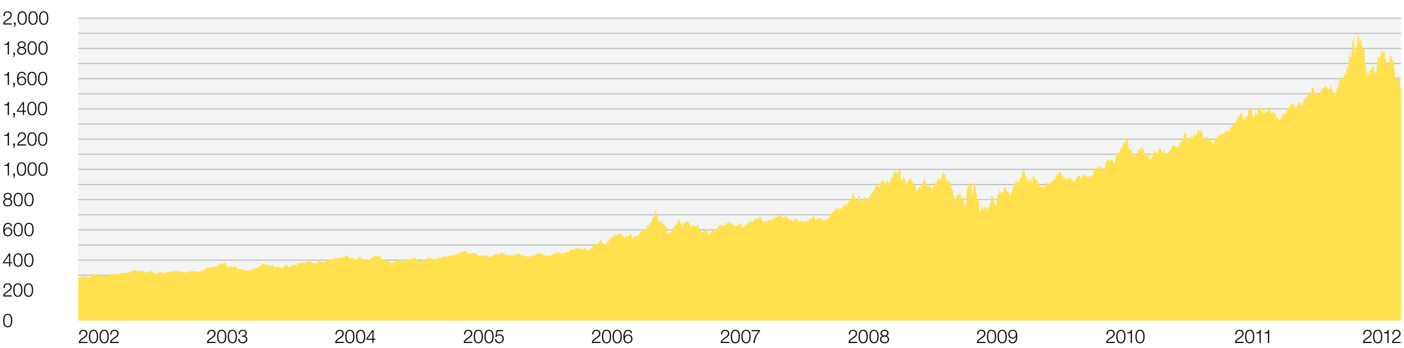
Gold's bull run continued in 2011…
The gold price increased for the tenth consecutive year in 2011, with the London PM Fix closing at US$1,531/oz on 31 December 2011, a 9% increase over the year. The average gold price for the year reached a record US$1,571/oz, up 28% compared with 2010 (US$1,225/oz), while the intra-day high, based on the spot price, touched US$1,925/oz in September, a new record. In 2011, as in 2010, gold outperformed some of the major global indices, including the DJIA (+6%), S&P500 (0%), FTSE100 (-6%), DAX (-15%), CAC (-17%) and the NIKKEI (-17%).

…on the back of continuing economic uncertainty and geopolitical tension
History has shown that as an effective risk diversification and hedging tool, gold often benefits from political instability and economic malaise, serving as a long-standing store of value. Negative real interest rates, global market volatility, lingering European sovereign debt concerns and contagion issues, a catalogue of country credit rating downgrades (including the USA), depressed housing prices, the on-going risk of currency debasement, as well as widespread social unrest are some of the factors that assisted in driving the gold price higher in 2011.

Total 2011 physical demand saw record levels, dominated by jewellery and physical investment
Although jewellery demand was down by 3% in 2011 to approximately 63Moz, it remained resilient considering record gold prices and tough macro-economic headwinds. As in 2010, almost one half of global gold demand was underpinned by the jewellery industry with India and China accounting for just over 50% of this demand. In contrast, jewellery demand in many Western economies continued its downward trajectory, constrained by affordability factors.

Growing investor demand was a strong driving force for gold in 2011. Investment demand increased by 5% in 2011,

The gold price has appreciated by 454% since 2002 (US$/oz)



Source: *The London Gold Market Fixing Limited. Data provided for information purposes only.*

- The gold price reached a record US$1,925/oz in 2011
- The average gold price for the year was US$1,571/oz
- Global demand for gold in 2011 rose to 142Moz – the highest level since 1997
- 2011 witnessed the largest central bank demand since 1964, at 440 tonnes
- Scrap supply fell 2% to 52Moz despite record gold prices

with physical demand for bars up an impressive 29% to 37Moz. Global demand from Exchange Traded Funds ("ETFs") was equally robust, with the top 20 gold ETFs adding approximately 4.8Moz to their holdings.

On-going official sector demand remained buoyant in 2011 as central banks continued to diversify foreign exchange reserves, buying almost 13.7Moz, the largest amount since 1964. This is an important development as traditionally central banks have been sellers of the precious metal, a trend that changed in 2009 following the financial crisis. It is worth noting that whilst emerging market economies accounted for a significant share of net purchases in 2011, they typically do not hold a high percentage of their reserves in gold. It is therefore likely that accumulation will continue as emerging economies target a rise in the level of their gold reserve holdings.

2011 mine production up 4%, scrap supply down 2%

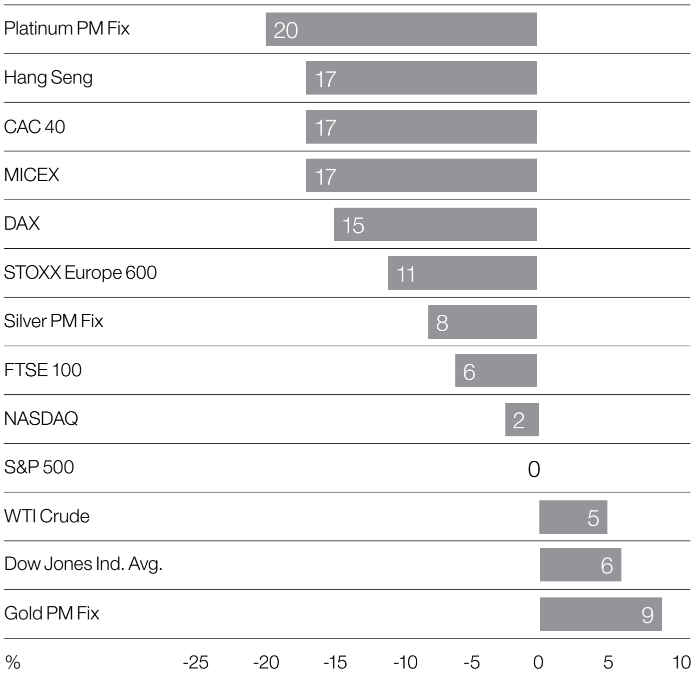
The supply side of the equation is dependent on physical gold recovered from mining, recycled supply and official sector sales, of which there have been none since 2009. In the absence of substantial new discoveries, miners continued to respond to strong gold prices by accelerating exploration, ramping up production and reassessing projects previously deemed uneconomical. Mine supply accounted for approximately 90Moz in 2011, with scrap supply falling 2% to 52Moz, as some sellers held on to gold in anticipation of even higher prices.

Expectations for 2012

During January and February 2012, the average gold price was 24% higher than during the same period in 2011. With gold continuing to benefit from record prices, miners have been actively exploring deposits, developing sites and pursuing potential mergers and acquisitions. As such, 2012 is likely to be another busy year as gold mining companies strive to satisfy the global demand for precious metals, capitalising on gold's bull run.

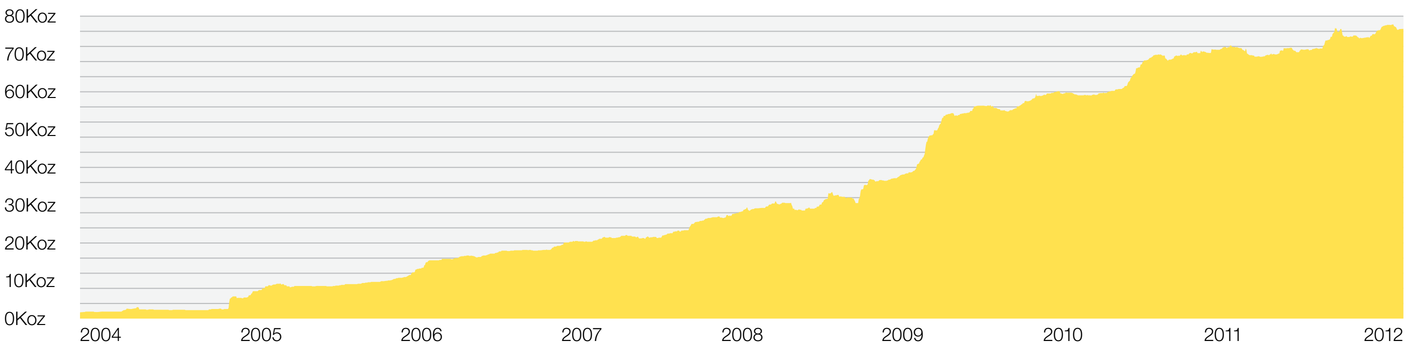
Source: *World Gold Council.*

Gold continued to outperform other assets in 2011 (% return)



Source: *J.P. Morgan Cazenove.*

Gold ETFs continued to grow their holdings in 2011, with the top 20 ETFs holding a total of 78.5Moz



Source: *UBS.*

10 Facts About Petropavlovsk

❶ Strong organic growth profile

Through its strategy of organic growth, in 2011 Petropavlovsk delivered its ninth consecutive year of gold production growth since the Company listed on the London Stock Exchange in 2002. The Group is poised to continue its production expansion by combining the use of innovative technologies with active exploration based on its R&D support base and leading industry specialists.

28% CAGR

Compounded annual production growth rate since listing in 2002

Go to page 10 for more on the Group's strategy

❷ One of Russia's leading gold producers

Since starting out 18 years ago with just one early stage asset and 11 employees, the Group has evolved into one of the leaders of the Russian gold mining industry. The Group is at the forefront of industry trends and developments, which helps to maintain its competitive advantage as an industry leader and to secure profitable future growth. 2011 gold production of 630,100oz ranks Petropavlovsk as Russia's second largest gold producer.

#2 producer

Russia's second largest gold producer in 2011

Go to page 24 for more on gold production in Russia

❸ A skilled workforce

Over the course of its 18 year history, the Group has built a strong core team of leading industry specialists. The commitment and diligence of that team, together with a culture of innovation and an entrepreneurial spirit, has helped to transform the initial business into a leading force in the Russian gold mining industry. Nurturing talent, investing in regional education and employee development, the Group is confident in the ability of its team to drive its ambitions forward.

c.13,400 employees

2011 average number of employees across all operations and in-house subsidiaries

Go to pages 12 to 19 for more on the Group's exploration and technical expertise

❹ Consistent growth in reserves and resources

Following a strategy of organic growth, the Group has evolved into one of the leading explorers in Russia. The Group, supported by the talent and experience of its geologists, has created impressive shareholder value by finding new reserves and resources at a competitive cost. The Group anticipates that it will be able to continue delivering such results as it continues its comprehensive exploration work at 15 sites across four regions of Russia.

c.28 Moz

Gold in JORC resources discovered since listing in 2002

Go to page 66 for the Group's reserve and resource statements

❺ The Amur region – a highly prospective gold province

The focus of the Group's operations, the Amur region, has a long standing history of gold mining, dating back to 1867. With a total geographical area approximately the size of Germany, the Amur region lies across the middle of one of the world's major mineralisation belts. In 2011, the region ranked as second in Russia based on total gold production.

62%

Of gold produced in the Amur region is attributable to the Group

Go to page 24 for more on the Group's market position

❻ A history of delivering ambitious projects

Petropavlovsk has a strong track record of bringing assets into production on time, using highly skilled labour and its in-house expertise. The commissioning of four mines within the past ten years has driven year-on-year gold production growth, a trend which is set to continue. As expansion continues, the Group envisages increasing its annual processing capacity at its gold mines to 19Mtpa by the end of 2013.

19 Mtpa

Projected processing capacity by the end of 2013

Go to page 20 for a graph of the Group's year-on-year production growth

❼ A strong portfolio of assets

The Group's diverse portfolio of assets includes four gold producing mines, alluvial operations and a series of promising exploration targets as well as iron ore and ilmenite production capabilities of its industrial commodities subsidiary, IRC. The Group's producing assets remain prospective in terms of additional discovery potential and mine life extension. In total, the Group has approximately 140 natural resources licences across more than ten Russian regions.

3.2 Moz Au

Gold produced by the Group to date across all operations

Go to pages 48 to 59 for more on the Group's operations

❽ An exciting future vision

A significant proportion of Russia's remaining gold resources are contained within refractory ore, which requires additional treatment for successful gold recovery. The POX hub at Pokrovskiy will become the largest and most technologically advanced in Russia, providing the Group with a strong competitive advantage. The POX hub will be commissioned in 2013 and will be able to process approximately 600Ktpa of gold concentrate at full capacity.

600 Ktpa

Final full capacity of the POX hub

Go to page 44 for more information on the POX hub

❾ Strong focus on corporate and social responsibility

As a major employer and tax payer in the Amur region, Petropavlovsk plays a vital economic and social role in the lives of the communities in which it operates. The Group's commitment to regional social and economic development is carried out through its charitable fund, the Petropavlovsk Foundation for Social Investment, which provided financial support to a range of educational, health and social programmes in 2011.

US$3.4m

Sponsorship and charitable donations in 2011

Go to page 22 for more on the Group's commitment to acting responsibly

See Petropavlovsk's Sustainability Report 2011 for further details

❿ Strong management team

The Group's senior management has been instrumental in delivering its success to date. The management team consists of Russian and international experts with vast operational and development experience. Many of the Group's senior management have been with the business since it was founded, when the development of Pokrovskiy began 18 years ago.

18 years

Of successfully operating in the Russian Far East

Go to page 90 to view profiles of some of the Group's experts

Our Key Performance Indicators

"The Group's financial performance in 2011 was strong, thanks to our continued record gold production and sales, which underpinned our record revenue."

Brian Egan
Chief Financial Officer

The Group has established a set of financial, operational and non-financial Key Performance Indicators ("KPIs") to monitor progress and performance against strategic objectives and to benchmark the Group's performance against its peers over time.

The Group has chosen to report in depth on financial, operational and non-financial KPIs from a range of indicators regularly monitored by the Board and the Executive Committee in order to outline to shareholders the Group's progress against its target to become one of the leaders of the global gold mining industry using innovative technologies, delivering superior shareholder returns and sustainable growth.

Revenue (US$ million)

2011	1,262.5
2010	612.0
2009	472.3
2008	381.7
2007	226.4

Definition
Revenue is the fair value of the consideration received or receivable through the sales of gold, iron ore and ilmenite concentrate by the Group, as well as the rendering of services by the Group's in-house expertise.

Relevance
Revenue is an indicator of the Group's ability to generate operating cash flows which are the source of funding of the Group's working capital requirements, capital expenditure and debt service obligations.

Performance in 2011
Record gold production in combination with a record average gold sales price translated into record revenue for the Group during 2011.

Profit for the period (US$ million)

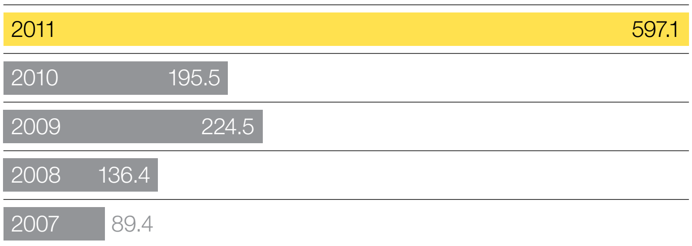
2011	240.5
2010	23.0
2009	144.8
2008	22.7
2007	39.6

Definition
Profit for the period is calculated by deducting operating and net finance expenses, share of results of joint ventures and taxation from total revenue.

Relevance
Profit for the period is often referred to as the 'bottom line' of the income statement and is the income attributable on a per share basis when it is divided by the weighted average number of shares outstanding during the reporting period.

Performance in 2011
Profit for the period increased 946% from US$23.0 million in 2010 to US$240.5 million in 2011, in part due to record revenue generated by the Group.

Underlying EBITDA (US$ million)

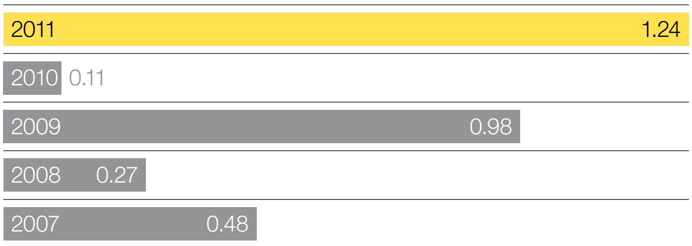


Definition
Underlying EBITDA is the profit for the period before financial income, financial expenses, foreign exchange gains and losses, taxation, depreciation, amortisation and impairment.

Relevance
Underlying EBITDA is an indicator of the Group's ability to generate operating cash flows which are the source of funding of the Group's working capital requirements, capital expenditure and debt service obligations.

Performance in 2011
Underlying EBITDA for 2011 comprised US$597.1 million, a 205% increase compared with 2010, primarily reflecting increase in average gold price realised and volumes of gold sold.

Basic Earnings per Share ("EPS") (US$)

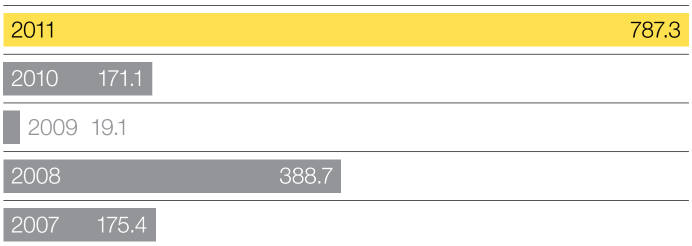


Definition
Basic EPS is calculated as the net profit attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the reporting period.

Relevance
Basic EPS is an indicator of the Group's profitability and the value per Ordinary Share.

Performance in 2011
Basic earnings per share for 2011 were US$1.24 compared with US$0.11 in 2010. The key factor affecting the basic earnings per share was the increase of net profit for the period attributable to equity holders of Petropavlovsk PLC from US$19.8 million in 2010 to US$230.9 million in 2011, somewhat offset by the increase in the weighted average number of Ordinary Shares in issue during the period from 183,815,830 in 2010 to 186,478,361 in 2011.

Net debt (US$ million)

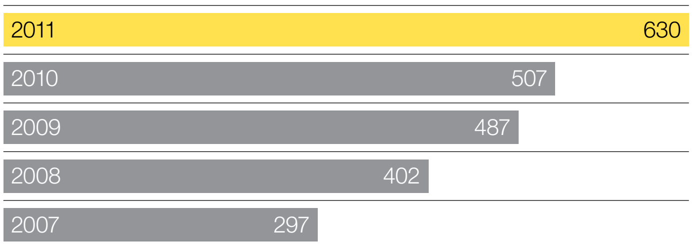


Definition
Net debt is calculated as total borrowings less cash and cash equivalents.

Relevance
Net debt shows the extent to which a business is in debt.

Performance in 2011
Net debt increased from US$171.1 million as at 31 December 2010 to US$787.3 million as at 31 December 2011 as the Group continued with its ambitious expansion plans, accelerating project development in order to grow processing capacity.

Attributable gold production ('000oz)



Definition
Measured in troy ounces, attributable production is the total of the Group's equity interest in the gold produced from the Group's four hard rock mines and alluvial operations, as well as shares in any joint ventures and investments.

Relevance
As the majority of revenue is attributable to the sale of gold produced by the Group, increasing volumes of gold production underpins the Group's financial performance. The indicator also demonstrates the strength of the Group's operational and managerial teams to deliver against the mine plan.

Performance in 2011
Record annual gold production of 630.1Koz in 2011 was driven by higher output from Pioneer as well as the expansion of operations at Malomir.

"In 2011, we delivered on our production target, while controlling costs. On-going sustainable growth is rooted in our successful exploration programme, which continues to provide an uplift in reserves and resources."
Martin Smith
Deputy Chief Executive

Total cash costs for hard rock mines ("TCC/oz")

2011	586
2010	548
2009	303
2008	330
2007	216

Definition
TCC/oz is the cost of producing and selling an ounce of hard rock gold after taking into consideration the cost of mining, processing, transportation, refining, general and administrative expenses, by-product credits, state royalties and other taxes.

Relevance
The metric is often used by investors to compare and contrast operational efficiency of production across different gold mining peer companies.

Performance in 2011
Notwithstanding the inflationary pressures affecting the gold mining industry in 2011, the Group showed tight cost control over its hard rock assets during 2011, with TCC/oz for our hard rock mines rising just 7% compared with 2010.

Total cash costs for alluvial operations ("TCC/oz")

2011	1,167
2010	861
2009	769

Definition
TCC/oz is the cost of producing and selling an ounce of alluvial gold after taking into consideration the cost of mining, processing, transport, refinery, general and administrative expenses, by-product credits, state royalties and other taxes.

Relevance
The metric is often used by investors to compare and contrast operational efficiency of production across different gold mining peer companies.

Performance in 2011
In H2 2010, Omchak (an alluvial operation) became a subsidiary of the Group. Production and costs from this operation are 100% attributable to the Group since the date of acquisition. Production from Omchak during H1 2010 was 50% attributable. In 2011, the Group took the benefit of all alluvial production but also the effect of all costs for the full year, resulting in an increase in alluvial cash costs of 36% compared with 2010.

Average gold sales price ("AGSP")

2011	1,617
2010	1,253
2009	975
2008	845
2007	668

Definition
The average gold sales price is the mean price at which the Group sold its annual gold production output throughout the year. It is calculated by dividing total revenue received from gold sales by the total quantity of gold sold in the period.

Relevance
The figure shows the average price at which gold produced by the Group was sold in the year. All things being equal, a higher AGSP helps to drive revenue growth.

Performance in 2011
The AGSP grew 29% to US$1,617/oz in 2011 compared with US$1,253/oz in 2010. Record gold prices for the tenth consecutive year were behind this increase.

"Despite the increased size of our operations in 2011, the Group improved on its Lost Time Injury Frequency Rate and no major HSE issues took place."
Alexander Davidenko
Head of Occupational Health and Safety

Group Lost Time Injury Frequency Rate ("LTIFR")

2011	1.9
2010	3.0
2009	3.8
2008	0.5
2007	2.3

Definition
LTIFR is time lost from work as a result of an accident or fatality, measured as the number of accidents or fatalities per million man hours worked. LTIFR covers Group subsidiaries over which the Group's HSE Committee has direct control, as such IRC is excluded from these figures.

Relevance
In line with its aim to operate in a safe and responsible manner, the monitoring of LTIFR enables the Group to measure the effectiveness of its safety policies and procedures in order to mitigate defined safety risks.

Performance in 2011
There were no on-site fatalities in 2011 compared with three in 2010. The decrease in LTIFR and fatalities was achieved despite the increase in the average number of employees and the challenge of implementing OH&S procedures across new project sites.

Mineral Resources (Moz)

2011	24.6
2010	23.1
2009	11.9
2008	8.9

Ore Reserves (Moz)

2011	10.2
2010	9.1
2009	6.8
2008	3.6

Definition
Ore Reserves are the economically mineable portions of a *Measured* and/or *Indicated* Mineral Resource, the extraction of which could reasonably be justified at the time the site is evaluated.

Mineral Resources are portions of a deposit in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

Relevance
Exploration is the one of the cornerstones of the Group's strategy to become a leading global gold producer. The Group's emphasis on exploration, on discovering profitable new ounces of gold, has been instrumental in its success, providing a sustainable pipeline of projects which have ultimately underpinned Petropavlovsk's strong organic growth profile.

Performance in 2011
There was a significant uplift in the Group's JORC Code (2004) compliant Mineral Resources and Ore Reserves: *Proven* and *Probable* Ore Reserves increased by 11% to 10.2Moz, compared with 9.1Moz reported in March 2011 while *Measured* and *Indicated* Mineral Resources increased by 12% to 14.4Moz (inclusive of Resources upgraded to the Reserves category) compared with estimates reported in March 2011. A further 10.2Moz of *Inferred* Mineral Resources were identified.

Chief Financial Officer's Statement
Brian Egan

"Strong financial results, with record underlying EBITDA of US$597.1 million and basic earnings per ordinary share of US$1.24."

Brian Egan
Chief Financial Officer

Financial highlights

	2011 US$ million	2010 US$ million
Group revenue	**1,262.5**	612.0
Underlying EBITDA [a]	**597.1**	195.5
Underlying EBITDA before exceptional items [a]	**581.9**	204.8
Net profit	**240.5**	23.0
Earnings per Ordinary Share (basic)	**US$1.24**	US$0.11
Total attributable gold production ('000oz)	**630.1**	506.8
Gold sold ('000oz)	**676.3**	445.3
Average gold price received (US$/oz)	**1,617**	1,253
Total average cash cost per ounce	**US$662/oz**	US$608/oz
Total cash cost per ounce for hard-rock deposits	**US$586/oz**	US$548/oz

(a) Reconciliation of underlying EBITDA is included in note 37 to the Consolidated Financial Statements.

	31 December 2011 US$ million	31 December 2010 US$ million
Cash	**213.5**	321.0
Loans	**(668.0)**	(165.8)
Convertible bonds [b]	**(338.8)**	(326.3)
Restricted bank deposit	**6.0**	–
Net debt	**(787.3)**	(171.1)

(b) The liability component of US$380 million convertible bonds due 18 February 2015 is measured at amortised cost.

Revenue

	2011 US$ million	2010 US$ million
Revenue from precious metal operations	**1,101.3**	561.7
Revenue generated by IRC	**122.2**	25.8
Revenue from other operations	**39.0**	24.5
	1,262.5	612.0

Physical volumes of gold production and sales

	2011 oz	2010 oz
Gold sold from Pokrovskiy, Pioneer, Malomir	**589,681**	363,830
Gold sold from alluvial operations	**86,628**	81,518
Movement in gold in circuit and doré bars	**(46,225)**	39,852 [a]
Gold produced by subsidiaries of the Group [b]	**630,084**	485,200
Gold produced by joint ventures and investments [b]	**–**	21,600
Total attributable production	**630,084**	506,800

(a) Attributed to high grades processed in December 2010 at Pokrovskiy, Pioneer and Malomir with subsequent sales in 2011.

(b) In July 2010, Omchak has become a subsidiary of the Group and production from Omchak is 100% attributable to the Group since the date of acquisition. Production from Omchak for the first half of 2010 was 50% attributable to the Group and was included in the amounts produced by joint ventures and investments.

Group revenue in 2011 was US$1,262.5 million, 106% higher than the US$612.0 million achieved in 2010.

Growth in revenue from the precious metals operations of 96% from US$561.7 million in 2010 up to US$1,101.3 million in 2011 contributed to US$539.6 million increase in revenue. Gold remains the key commodity produced and sold by the Group, comprising 87% of total revenue generated during 2011. The Group's average gold price realised increased by 29% from US$1,253/oz in 2010 to US$1,617/oz in 2011, which contributed to a US$162 million increase in revenue from the precious metals operations. The physical volume of gold sold increased by 52% from 445,348oz in 2010 to 676,309oz in 2011, which contributed to a further US$373 million increase in revenue from the precious metals operations.

The Group sold 247,285oz of silver at an average price of US$32/oz, compared with 172,226oz in 2010 at an average price of US$22/oz. Increase in silver sales contributed to a further US$4 million increase in revenue from precious metals operations.

IRC contributed US$96.4 million to the increase in revenue, increasing from US$25.8 million in 2010 to US$122.2 million in 2011. This was primarily attributable to the full ramp-up of the iron ore concentrate circuit at the Kuranakh mine in the second half of 2011. IRC sold approximately 770,000 tonnes of iron ore concentrate and approximately 52,000 tonnes of ilmenite, and recorded revenue of US$110.4 million from the combined sales. However, there was a decrease in revenue generated through IRC's mining research institute Giproruda, decreasing from US$13.2 million in 2010 to US$11.8 million in 2011, reflecting a lower demand for engineering and consulting services.

Revenue generated as a result of third-party work by the Group's in-house services contributed a US$14.5 million increase in revenue from US$24.5 million in 2010 to US$39.0 million in 2011. This was primarily attributable to sales generated by the Group's engineering and research institute, Irgiredmet, which had a turnover of US$34.6 million in 2011 compared with US$20.4 million in 2010, primarily through procurement of materials, consumables and equipment for third parties.

Exceptional items
The Group discloses separately exceptional items, being significant items of income and expense, which due to their nature or the expected infrequency of the events that give rise to these items should, in the opinion of the Directors, be disclosed separately to enable a better understanding of the financial performance of the Group.

This year, the following items were considered as exceptional:

- US$12.0 million gain on disposal of the Group's investments in Odolgo JV and Solovyevskiy Priisk, being the difference between the US$10 million aggregate proceeds and US$0.9 million cost of investment in Solovyevskiy Priisk, as well as US$2.9 million net liabilities of Odolgo JV.
- US$3.2 million cash refund of costs incurred in relation to the listing of IRC on The Stock Exchange of Hong Kong Limited.
- US$14.2 million impairment of non-trading loans.
- Net gain of US$1.4 million on the acquisition of Jiatai Titanium.

The effect of exceptional items on operating profit and profit for the period is set out in the table below.

	2011			2010		
	Before exceptional items US$ million	**Exceptional items US$ million**	**Total US$ million**	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million
EBITDA	**581.9**	**15.2**	**597.1**	204.8	(9.3)	195.5
Operating profit	**397.8**	**2.4**	**400.2**	118.3	(15.4)	102.9
Profit for the period	**238.1**	**2.4**	**240.5**	48.7	(25.7)	23.0

EBITDA, operating profit and expenses before exceptional items

	2011 US$ million	2010 US$ million
EBITDA before exceptional items	**581.9**	204.8
Depreciation, amortisation and impairment	**(174.3)**	(83.3)
Foreign exchange losses	**(9.8)**	(3.2)
Operating profit before exceptional items	**397.8**	118.3

Operating profit before exceptional items, as contributed by business segments, is set out below.

	2011 US$ million	2010 US$ million
Precious metals	**486.4**	214.7
IRC	**18.8**	(13.9)
Other	**(4.6)**	(15.2)
Operating profit before exceptional items as contributed by business segments	**500.6**	185.6
Central administration	**(93.0)**	(64.1)
Foreign exchange losses	**(9.8)**	(3.2)
Operating profit before exceptional items	**397.8**	118.3

Precious metals
This year, the precious metals operations generated a segment profit before exceptional items of US$486.4 million compared with US$214.7 million in 2010.

Costs of precious metals operations
The average total cash cost per ounce for the Group increased from US$608/oz in 2010 to US$662/oz in 2011, mainly due to continuous strong inflationary trends during 2011 and the lower grades of ore mined and processed at Pokrovskiy and Malomir somewhat offset by higher grades of ore mined and processed at Pioneer. This was more than compensated by the increase in average gold price realised and an increase in physical volume of gold sold, resulting in a net US$359 million increase in the operating cash profit. This net increase in operating profit was reduced by a US$58.3 million increase in depreciation due to higher volumes of ore mined and processed and US$40.1 million impairment.

The key components of the operating cash expenses are wages, electricity, diesel, chemical reagents and consumables, as set out in the table below. The key cost drivers affecting the operating cash expenses are production volumes of ore mined and processed, cost inflation and fluctuations in Rouble to US Dollar exchange rate.

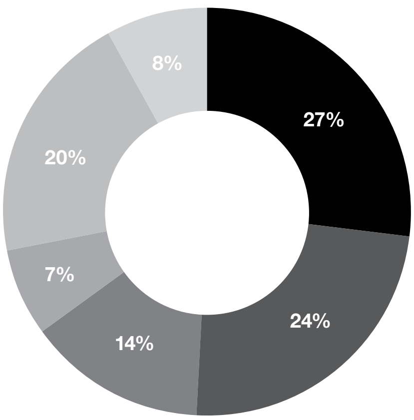
Compared with 2010, electricity costs increased by 17%, cost of chemical reagents increased by 2%, cost of explosive materials increased by 85%, cost of diesel increased by 36%, consumables prices increased by up to 12% and wages increased on average by 6%. The impact of Rouble price inflation was further increased by the appreciation of the Rouble against the US Dollar by 3%, with the average exchange rate for the period going from 30.4 Roubles per US Dollar in 2010 to 29.4 Roubles per US Dollar in 2011.

Refinery and transportation costs are variable costs dependent on the production volume and comprise about 0.5% of the gold price. Royalties, comprising 6% of the gold price, are also variable costs dependent on the production volume and the gold price realised.

	2011 US$ million	2010 US$ million
Staff cost	**124.5**	76.3
Materials	**110.3**	73.0
Fuel	**66.0**	32.5
Electricity	**32.0**	19.6
Other external services	**95.1**	38.6
Other operating expenses	**36.3**	21.0
	464.2	261.0
Movement in work in progress and bullion in process attributable to gold production	**(133.5)**	(35.3)
Total operating cash expenses	**330.7**	225.7

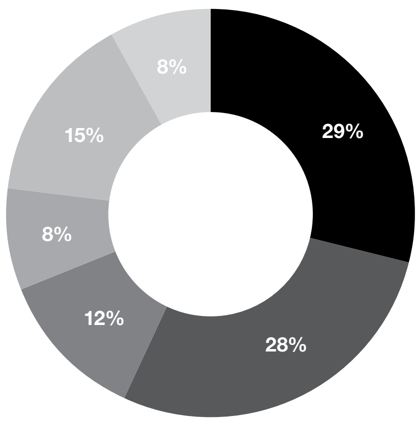
2011

- Staff costs: US$124.5m
- Materials: US$110.3m
- Fuel: US$66.0m
- Electricity: US$32.0m
- Other external services: US$95.1m
- Other operating expenses: US$36.3m



2010

- Staff costs: US$76.3m
- Materials: US$73.0m
- Fuel: US$32.5m
- Electricity: US$19.6m
- Other external services: US$38.6m
- Other operating expenses: US$21.0m



	Hard-rock mines				Alluvial operations	Other	Total	2010 Total
	Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	US$ million	US$ million	US$ million	US$ million
Revenue								
Gold	**637.4**	**160.8**	**150.5**	**–**	**142.4**	**2.4**	**1,093.5**	557.9
Silver	**6.4**	**0.8**	**0.4**	**–**	**0.2**	**–**	**7.8**	3.8
	643.8	**161.6**	**150.9**	**–**	**142.6**	**2.4**	**1,101.3**	561.7
Expenses								
Operating cash expenses	**150.8**	**55.8**	**44.5**	**2.3**	**75.1**	**2.2**	**330.7**	225.7
Refinery and transportation	**3.5**	**0.6**	**0.8**	**–**	**1.0**	**–**	**5.9**	3.5
Other taxes	**5.0**	**1.3**	**3.6**	**0.2**	**1.2**	**0.1**	**11.4**	6.6
Royalties	**38.6**	**10.3**	**9.3**	**–**	**8.0**	**0.2**	**66.4**	33.2
Deferred stripping costs	**18.2**	**8.6**	**–**	**–**	**14.2**	**–**	**41.0**	5.8
Depreciation and amortisation	**50.1**	**29.3**	**28.2**	**–**	**9.6**	**1.4**	**118.6**	60.3
Impairment	**–**	**2.6**	**5.3**	**–**	**3.6**	**28.6**	**40.1**	8.9
Operating expenses	**266.2**	**108.5**	**91.7**	**2.5**	**112.7**	**32.5**	**614.1**	344.0
Share of results in joint ventures							**(0.8)**	(3.0)
Result of precious metals operations before exceptional items							**486.4**	214.7
Physical volume of gold sold, oz	**395,763**	**99,880**	**94,038**	**–**	**85,134**	**1,494**	**676,309**	445,348
Cash costs								
Operating cash expenses	**150.8**	**55.8**	**44.5**	**2.3**	**75.1**	**2.2**	**330.7**	225.7
Refinery and transportation	**3.5**	**0.6**	**0.8**	**–**	**1.0**	**–**	**5.9**	3.5
Other taxes	**5.0**	**1.3**	**3.6**	**0.2**	**1.2**	**0.1**	**11.4**	6.6
Deduct: co-product revenue	**(6.4)**	**(0.8)**	**(0.4)**	**–**	**(0.2)**	**–**	**(7.8)**	(3.8)
Operating cash costs	**152.9**	**56.9**	**48.5**	**2.5**	**77.1**	**2.3**	**340.2**	232.0
Operating cash cost per oz, US$	**386**	**569**	**516**	**–**	**906**	**1,531**	**503**	520.5
Royalties	**38.6**	**10.3**	**9.3**	**–**	**8.0**	**0.2**	**66.4**	33.2
Deferred stripping costs	**18.2**	**8.6**	**–**	**–**	**14.2**	**–**	**41.0**	5.8
Total cash costs	**209.7**	**75.8**	**57.8**	**2.5**	**99.3**	**2.5**	**447.6**	271.0
Total cash costs per oz for hard-rock mines, US$	**530**	**759**	**615**				**586**	548
Total cash costs per oz for alluvial operations, US$					**1,167**		**1,167**	861
Total average cash costs per oz, US$							**662**	608

IRC
IRC generated a segment profit before exceptional items of US$18.8 million compared with a loss of US$13.9 million in 2010.

IRC sold 770,000 tonnes of iron ore concentrate and 52,000 tonnes of ilmenite. Average cash costs to produce iron ore concentrate were US$66.2/tonne. Depreciation and impairment charges excluding exceptional items for IRC segment comprised US$11.3 million.

Central administration expenses
The Group has corporate offices in London, Hong Kong, Moscow and Blagoveschensk which together represent the central administration function. Central administration expenses before exceptional items increased by US$28.9 million from US$64.1 million in 2010 to US$93.0 million in 2011. IRC contributed US$9.8 million to the increase in central administration expenses before exceptional items from US$16.5 million in 2010 to US$26.3 million in 2011, mainly due to the full year operation of IRC Limited as a Hong Kong listed entity and the cost associated with the employer long-term incentive plan. A further increase in central administration expenses is attributable to US$3.4 million charitable donations through the Petropavlovsk Foundation for Social Investment, a US$3.4 million increase in staff costs, associated with the awards allocated to the employees under the Petropavlovsk PLC LTIP and general cost inflation.

Interest income and expense

	2011 US$ million	2010 US$ million
Investment income	**3.1**	6.5

The Group earned US$1.7 million interest income on the loan to Venezuela Holdings Limited, a subsidiary of Rusoro Mining Limited ("Rusoro") as well as US$1.4 million interest income primarily on the cash deposits with banks.

	2011 US$ million	2010 US$ million
Interest expense	**52.4**	37.8
Less interest capitalised	**(14.0)**	(7.2)
Other	**1.2**	1.6
	39.6	32.2

Interest expense increased by US$7.4 million from US$32.2 million in 2010 to US$39.6 million in 2011. Interest expense for the period was comprised of US$27.8 million effective interest on the convertible bonds and US$24.6 million interest on bank facilities. A further US$14.0 million of interest expense was capitalised as part of mine development costs within property, plant and equipment (2010: US$7.2 million).

Taxation

	2011 US$ million	2010 US$ million
Tax charge	**120.8**	46.2

The Group pays corporation tax under the UK, Russia and Cyprus tax legislation.

Total tax charge for the period comprised US$120.8 million, arising primarily in relation to the Group's precious metals operations. The effective tax rate for 2011 comprised 33% compared with the UK statutory tax rate of 26.5% and Russian statutory tax rate of 20%, primarily due to the US$17.4 million foreign exchange effect on deferred tax balances as well as unutilised current period tax losses represented by certain central costs.

This period, the Group made corporation tax payments in aggregate of US$60.0 million in Russia.

Earnings per share

	2011	2010
Profit for the period attributable to equity holders of Petropavlovsk PLC	**US$230.9 million**	US$19.8 million
Weighted average number of Ordinary Shares	**186,478,361**	183,815,830
Basic earnings per Ordinary Share	**US$1.24**	US$0.11

Basic earnings per share for 2011 were US$1.24 compared with US$0.11 in 2010. The key factor affecting the basic earnings per share was the increase of net profit for the period attributable to equity holders of Petropavlovsk PLC from US$19.8 million in 2010 to US$230.9 million in 2011 somewhat offset by the increase in the weighted average number of Ordinary Shares in issue during the period from 183,815,830 in 2010 to 186,478,361 in 2011. This increase in the weighted average number of shares was due to the time apportionment of the total 5,780,326 Ordinary Shares issued during the year 2010. The total number of Ordinary Shares in issue as at 31 December 2011 was 187,860,093 (31 December 2010: 187,860,093).

Financial position and cash flows

	At 31 December 2011 US$ million	At 31 December 2010 US$ million
Cash and cash equivalents	**213.5**	321.0
Borrowings	**(1,006.8)**	(492.1)
Restricted bank deposit	**6.0**	–
Net debt at the end of the year	**(787.3)**	(171.1)

Key movements in cash and debt

	Cash US$ million	Debt US$ million	Restricted bank deposit US$ million	Net debt US$ million
As at 1 January 2011	321.0	(492.1)	–	(171.1)
Net cash generated by operating activities before working capital changes	490.4	–	–	
Change in working capital	(231.0)	–	–	
Capital expenditure	(801.1)	–	–	
Amounts drawn down under bank facilities, net	502.5	(502.5)	–	
Settlement of outstanding consideration for 32.5% in Omchak	(9.8)	–	–	
Proceeds from disposal of investments in Odolgo JV and Solovyevskiy Priisk	10.0	–	–	
Dividends paid	(36.3)	–	–	
Debt transaction costs paid in connection with ICBC facility	(25.9)	–	–	
Restricted bank deposit	(6.0)	–	6.0	
Other cash and non-cash movements, net	(0.3)	(12.2)[a]	–	
As at 31 December 2011	**213.5**	**(1,006.8)**	**6.0**	**(787.3)**

(a) Including US$12.6 million of interest expense, net of interest payments.

Net cash generated from operations comprised US$259.4 million, primarily reflecting US$597.1 million in total EBITDA offset by US$231.0 million used to finance working capital, US$36.8 million in interest payments and US$60.0 million in income tax payments.

The Group's investment in working capital of US$231.0 million is analysed as follows:

- US$158.1 million was invested in inventories, out of which US$64.2 million was attributable to stores and spares as a result of commencement of operations at Kuranakh and the expansion of Albyn, Malomir and Pioneer. A further US$62.9 million was attributable to the increase in work in progress primarily as a result of the expansion of Albyn, Malomir and Pioneer.
- Accounts receivable increased by US$103.9 million, the increase primarily being attributable to advances to suppliers and VAT recoverable, again reflecting the expansion of operations.
- The effect of the above was partially offset by a US$31.2 million increase in trade and other payables, primarily attributable to the increase in trade payables.

Certain bank loans contain financial covenants. These are disclosed in note 23 on page 159 of the Annual Report. The Group carefully monitors compliance with covenants on a regular basis.

As at 31 December 2011, the Company had committed but undrawn loan facilities of US$462.6 million in aggregate, including US$333.0 million available under ICBC facility.

Capital expenditure

The Group spent an aggregate of US$801.1 million on its gold and iron projects compared with US$507.4 million invested in 2010. The key areas of focus this year were on the further development of Malomir, Albyn, Pioneer and K&S projects and on-going exploration related to the Pokrovskiy, Pioneer and Albyn projects.

	Exploration expenditure US$ million	Development expenditure US$ million	Other CAPEX US$ million	Total US$ million
Pokrovskiy and Pioneer	39.3	107.4	–	146.7
Malomir	1.0	189.5	–	190.5
POX	–	56.8	–	56.8
Albyn	24.4	143.9	–	168.3
Visokoe	4.6	–	0.1	4.7
Yamal	7.9	10.8	–	18.7
Verkhnetisskaya	1.8	–	–	1.8
Other	20.8	–	24.0	44.8
Total invested in precious metals operations	**99.8**	**508.4**	**24.1**	**632.3**
Kuranakh	–	15.6	–	15.6
K&S	1.3	119.8	–	121.1
Other	7.2	12.3	1.4	20.9
Total invested in IRC	**8.5**	**147.7**	**1.4**	**157.6**
Property, plant and equipment upgrade of in-house exploration, construction and engineering expertise	–	–	11.2	11.2
Total	**108.3**	**656.1**	**36.7**	**801.1**

Foreign currency exchange differences

The principal subsidiaries have a US Dollar functional currency. Foreign exchange differences arise on translation of monetary assets and liabilities denominated in foreign currencies, for which the principal subsidiaries of the Group are Russian Rouble and GB Pounds Sterling.

The following exchange rates to the US dollar have been applied to translate monetary assets and liabilities denominated in foreign currencies.

	31 December 2011	31 December 2010
GB Pounds Sterling (GBP : US$)	**0.65**	0.64
Russian Rouble (RUR : US$)	**32.2**	30.48

The Group recognised foreign exchange losses of US$9.8 million in 2011 (2010: foreign exchange losses of US$3.2 million) arising primarily on Russian Rouble denominated net monetary assets and GB Pounds Sterling denominated net monetary liabilities.

Subsequent events

On 7 February 2012, the Group disposed its interest in the wholly-owned subsidiary CJSC SeverChrome for the total cash consideration of US$7.8 million.

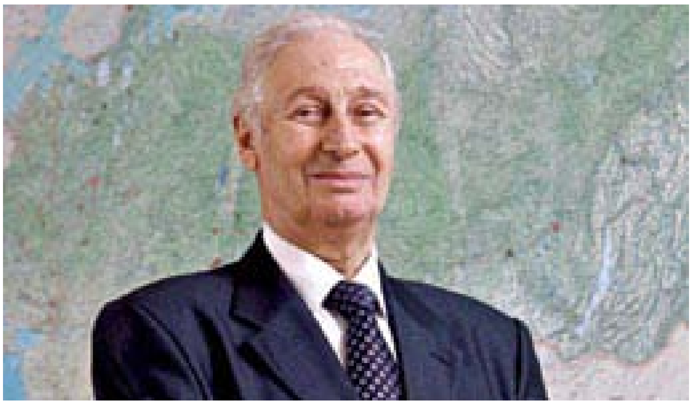
On 22 March 2012, the Group entered in a US$200 million loan facility agreement with Sberbank. The loan bears annual interest of 7.75% and is repayable between June 2016 and March 2018.

On 27 March 2012, the Board of Directors resolved to recommend a final dividend of £0.07 per share which is expected to result in the aggregate payment of £13.2 million. Subject to shareholder approval at the Annual General Meeting on 31 May 2012, the final dividend is proposed to be paid on 26 July 2012 to shareholders on the register at the close of business on 29 June 2012.

Going concern

As set out in note 2.1 to the consolidated financial statements on page 133 of this Annual Report, at the time when the consolidated financial statements are authorised, there is a reasonable expectation that the Group has sufficient liquidity and adequate resources to continue operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Our Assets: POX Hub



"The pressure oxidisation ("POX") process chosen by the Group to treat refractory ore is currently one of the most modern, efficient and environmentally friendly methods available."
Professor Yakov Schneerson
Director of Gidrometallurgiya R&D Centre

The technology of the future
From 1994 to 2009, global gold production increased by 40% to 2,350t; however exploration results failed to outstrip the depletion of current deposits. The shortage of new, non-refractory deposits coupled with current gold price levels has seen attention re-focus, both in Russia and worldwide, on known refractory gold deposits, which were previously deemed uneconomical due to high capital and operating costs.

In response to this industry-wide trend, Petropavlovsk re-focused its strategy of profitable growth on the development of a processing technology not yet used in the gold mining industry in Russia. This decision was based not only on the nature of the Group's own deposits, but also on the belief that, with easy to process oxide ores fast running out worldwide, the commercial recovery of gold from refractory ores was likely to become the mining technology of the future. Through the processing of refractory ores, the Group anticipates that it will be able to take on a growing share of Russian gold mining and processing in the near future.

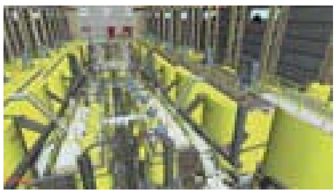
The hub concept and design
In 2006, the Group began an extensive testing programme to examine the technological properties of the refractory mineralisation at Pioneer and Malomir in order to devise the most efficient treatment method. More than 300 tests, ranging from a scoping stage bench-scale trial to closed-cycle pilot plant experiments, have enabled Group specialists and external technical advisers to complete the design of a hydrometallurgical processing "hub", which will be one of the largest and most advanced of its kind in Russia.

After examining all the technical, infrastructural and logistical aspects in a detailed evaluation of several development options, the Group decided to centralise the processing of refractory concentrates at its Pokrovskiy

The hub concept
Two flotation plants at Malomir and Pioneer will produce concentrate using flotation technology. This will then be transported to the Pokrovskiy site, which will act as a regional hub, for further treatment and gold recovery.

Malomir

Refractory ore

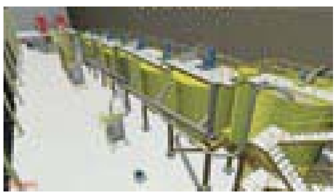


On-site flotation plant
(carbon pre-float and sulphide flotation)

Flotation concentrate
27.3g/t Au, 21.0% S

Pioneer

Refractory ore



On-site flotation plant
(sulphide flotation)

Flotation concentrate
27.9g/t Au, 28.9% S

Recent years have seen a marked shift towards refractory ore processing: global production from refractory ores increased by more than 165% between 1994 and 2009, accounting for more than 10% of global gold production in 2011.

site, which it envisages will act as a regional pressure oxidation and metallurgical processing hub. The hub at Pokrovskiy will be supplemented by two flotation plants at Malomir and Pioneer – concentrates produced at these plants using flotation technology will be transferred to Pokrovskiy for treatment and gold recovery.

Following its own extensive in-house research and test work, in Q4 2010 the Group commissioned Outotec (Finland) Oy ("Outotec"), the global leader in minerals and metals processing technology, to assist the Group with the preparation of the technical design for the POX plant at Pokrovskiy and the flotation plants at Malomir and Pioneer.

The design of the hub will enable flotation concentrates from Malomir and Pioneer to be processed in the same POX plant located at Pokrovskiy. The plant will consist of six pressure oxidation vessels, four of which will process the flotation concentrate from Malomir and two which will process the flotation concentrate from Pioneer. The POX plant is designed to process 600Kt of concentrate per annum at full capacity. This additional capacity, the modular nature of the plant and the logistical advantages of Pokrovskiy's location will also facilitate the treatment of concentrate from other mines.

The Group adopted a flexible yet conservative approach to its design of the pressure oxidation plant by running continuous additional checks to improve efficiency and robustness.

Permitting

PHM Engineering, the Group's Moscow-based in-house technical services subsidiary, is at an advanced stage in preparing construction plans and documentation to fulfil Russian technical regulations and to facilitate the permitting process.

Addressing logistical challenges

Based on manufacture and delivery lead times, Outotec split equipment for the POX hub and the two flotation plants into four categories. This has allowed the Group to develop the optimal schedule of manufacturing and shipping contracts. Outotec is acting as the principal developer, overseeing and controlling the quality of the equipment and the delivery schedule execution.

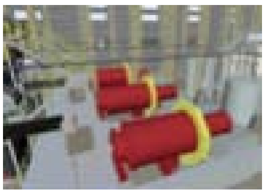
To guarantee the timely and safe delivery of all essential equipment, the Group commissioned INTOTEC Group ("INTOTEC"), a highly experienced and reputable Russian shipping company which has been providing transport services to the Group. INTOTEC will also be responsible for liaising with the relevant Russian authorities for timely and efficient custom clearances. The documentation required to facilitate this is already at an advanced stage.

Refractory ores and technology

Refractory ore generally contains sulphide minerals, which "lock" in gold particles making it difficult or even impossible to extract gold using conventional cyanide leaching or gravity concentration. Some refractory deposits also contain organic carbon that absorbs gold during cyanide leaching creating an effect known as "preg robbing", making a proportion of gold unrecoverable.

Three main methods are usually used to extract gold from refractory material: roasting, bioleaching and autoclave oxidation of which the latter is considered the most reliable and environmentally friendly. With this method, gold-bearing sulphides, such as pyrite, arsenopyrite and pyrrhotite, are extracted from the ore using flotation, creating a high-grade concentrate which is then treated at high temperatures in a pressurised autoclave. This process breaks up the sulphide minerals, releasing the gold which can then be recovered through conventional RIP cyanide leaching, as used currently at the Pokrovskiy, Pioneer, Malomir and Albyn plants.

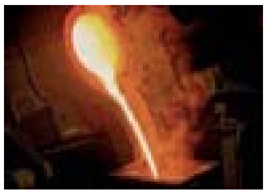
The Pokrovskiy hub



Re-grinding/ acid pre-treatment/ chlorine washing

6x60m³ autoclaves
Temperature: 225°C
Pressure: 35 bar

Cyanide leaching



Gold smelting

Gold

Gold doré bars

"In developing our POX plant we draw on a wealth of international experience in successful pressure leaching, looking at all POX autoclaves in operation worldwide. Our technical team visited a number of sites gaining first-hand operational and technical knowledge of the process."
Viktor Fedorov
Head of R&D

All large equipment, such as autoclave vessels and receivers, were sized and designed taking into account the transport limitations of the Russian rail system, and will therefore meet all necessary requirements and technical regulations. The permitting process required for the transport of oversized cargo from the Vladivostok port to Pokrovskiy is now at an advanced stage and will be completed in time to comply with the construction schedule.

Smaller items will be delivered by road by INTOTEC, using approximately 450 containers and 60 lorries. A temporary storage area larger than a football pitch is being prepared at the site to accommodate the cargo during the construction phase.

The first flotation equipment has been cleared by Russian customs and arrived at the Malomir site in March 2012.

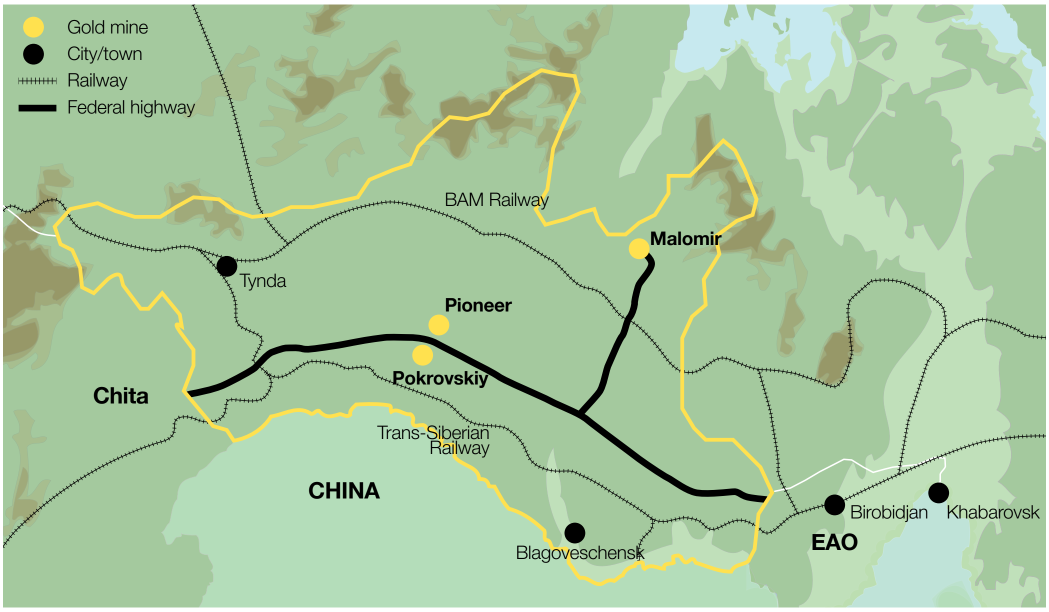
Quality control and assurance
Leading manufacturers have been commissioned by Outotec to provide the key equipment for the Pokrovskiy hub and the two flotation plants, including Shanghai Morimatsu for autoclave vessels, LOTERIOS S.p.A (Italy) for pressure pipe lines, DSB Säurebau GmbH (Germany) for titanium inner gear and autoclave linings, Outotec for flotation, control and automation equipment, Feluwa Pumpen GmbH (Germany) for acid resistant high-pressure slurry pumps, MOGRAS Industries (USA) for valves, and Red Mountain Energy Corporation for the oxygen plant. Although internal quality control at these manufacturers is to a very high standard, the Group undertakes further regular inspections using in-house and Outotec specialists. In addition, NDE Group was commissioned to provide on-going independent monitoring on all key equipment. NDE Group is a large, reputable international firm which, among other services, provides vendor assessments and independent quality assurance to a wide range of industries. The first checks on high-pressure pumps are being undertaken in March 2012 in Germany, as scheduled.

Staff hiring and training

Recognising that human resources are key to the success of such a large-scale project, the Group launched a specialist training programme in preparation for the commissioning of the POX plant. This comprehensive programme provides training of future plant engineers and operators at the Group's unique pilot autoclave plant facility in Blagoveschensk, which is equipped with the control and automation system of an industrial autoclave plant. Over the last year, the Pokrovskiy Mining College has also been running a course for future POX technicians and skilled workers.

The Group was successful in securing the services of Evgeniy Kudrin as Technical Director of the Pokrovskiy POX plant. Mr Kudrin was the Deputy Director for Production and Operations at the Nadezhdinskiy plant in Norilsk which is of comparable size and uses similar technology to the Pokrovskiy POX plant. Mr Kudrin therefore has first-hand technical and managerial experience of running such a plant.

In view of this, the Group's management is confident that a full, highly skilled team will be ready to operate the new facility upon commissioning.



As the Group's original site, which has been in operation for more than ten years, Pokrovskiy was chosen as the location of the hub due to its skilled workforce and excellent infrastructure, including available power supply and access to the federal road system. This allowed the Group to make significant CAPEX and OPEX savings.

Pokrovskiy's close proximity to the Trans-Siberian Railway, just 10km away from the mine, will enable flotation concentrate to be brought to the plant for processing not just from the Amur region, but also from other gold-bearing regions of the Russian Far East. Currently, there are no other operational POX plants dedicated to treating gold refractory ores in Russia, despite the large proportion of refractory deposits among the country's gold reserves.

Once completed, the POX plant will be able to extract gold from a wide range of refractory ores, supporting both long-term sustainable gold production from the Malomir and Pioneer deposits and the potential toll treatment of third-party refractory concentrates. Given the abundance of undeveloped refractory deposits in Russia, and in the Russian Far East in particular, this advanced processing technology will open up a new dimension for the Group's future growth. The Pokrovskiy site benefits from sufficient resources and supporting infrastructure to facilitate the expansion of the plant, should this be required.

Pilot test plant

Petropavlovsk's move towards POX processing has been supported by six years of intensive research by the Group's R&D Centres. Extensive laboratory work was supplemented with bulk test sampling at the Group's unique metallurgical pilot test plant based in Blagoveschensk.

Testing work using a scaled pilot autoclave at the test plant allows for the continuous processing of large volumes of concentrate, replicating the full-scale process. This pilot facility remains the largest operational autoclave for gold recovery in Russia, with only a few similar test facilities operating in the world.

During 2011, the Group carried out tests of Malomir and Pioneer samples at the pilot plant. Encouraging results were received for Malomir using carbon flotation to remove organic carbon and minimise preg robbing. Group specialists established flotation parameters and regimes, enabling the removal of the majority of carbon. Sulphide concentrate was subjected to pressure oxidation in the pilot autoclave and also to cyanidation. These tests indicated overall recovery to be in the range from 79% to 81%. Tests on Pioneer samples resulted in average gold recovery of 86%.

The pilot plant test results confirmed the previously developed mathematical model of the autoclave oxidation process at the future Pokrovskiy plant. Semi-industrial pressure oxidation tests also provided sufficient pulp material for representative thickeners and filtration tests, showing better than previously expected results.

Our Assets: Pokrovskiy

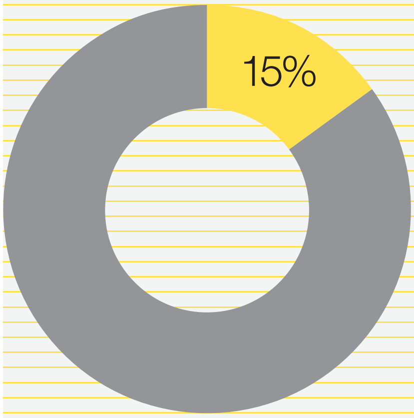
"The Pokrovskiy mine is much more than just a producing asset for us. It was our first gold mine and the place where our success story started. From a small, greenfield exploration site, it has today become one of the largest and most advanced gold producing mines in the Russian Far East. It remains a solid base for the Group's expanding network of producing mines."

Alexey Karskanov
Head Engineer of OAO Pokrovskiy

01 The RIP plant at Pokrovskiy
The plant consists of three milling lines and has a total combined design capacity of 2,100Ktpa.

01


Contribution to the Group's 2011 gold production



Location
Pokrovskiy is located in the western part of the Amur region in the Russian Far East and approximately 10km from the Trans-Siberian Railway.

Key facts

- Hard-rock gold mine, open-pit
- Total project area: 367.1km^2
- Designed processing capacity: 2,100Ktpa RIP plant + 800Ktpa heap-leach operations
- 2011 production: 91,800oz
- 2011 total cash costs: US$686/oz
- JORC reserves and resources: 1.7Moz resources, 0.74Moz reserves

Pokrovskiy

Pokrovskiy is a hard-rock, open-pit gold mine. The licence for the area was acquired in 1994 and the mine poured its first gold five years later, in 1999, following the commissioning of heap-leaching facilities. The all-seasons RIP processing plant was commissioned in 2002 and subsequently expanded to its current capacity in 2006. To date, the mine has produced more than 1.6Moz of gold and remains one of the largest mines in the Russian Far East in terms of annual production.

The Pokrovskiy mine benefits from very good transport links, well-developed infrastructure and excellent production facilities.

The main open-pit is coming to the end of its planned mine life. Current remaining reserves of 0.74Moz (as at 1 January 2012) are expected to be depleted by 2017. The Group is continuing exploration on other prospective parts of the licence area and production is gradually shifting to the Pokrovskiy satellite deposits and zones.

Considering this natural depletion of the main open-pit, and the Group's planned strategy to develop new processing technologies, a full feasibility study was commissioned by the Group in 2010 to investigate the conversion of Pokrovskiy's facilities into a centralised hub for the processing of refractory ores using pressure oxidation (autoclave) technology. This conversion is expected to be finalised by the end of 2013.

Geology and exploration

The Pokrovskiy gold deposit is located at the edge of the Sergievsky granodiorite massif, which is situated in the western part of the Umlanko-Ogadjinsky intra-continental belt of late Mesozoic age.

The Pokrovka-1 deposit consists of five large irregular shaped shallow dipping lenses situated on the contact between the dacite sill and hosting granites or volcanogenic formations. The ore bodies consist of gold disseminations that appear to be associated with intense block faulting, which characterises the geology of this region. The deposit occurs within a granitic-structural complex measuring 1,400mx800m with mineralisation extending to at least 240m in depth.

Pokrovka-2 is a sedimentary deposit formed as a result of erosion of Pokrovka-1 ore bodies some 50 million years ago. Whilst the five main ore bodies at Pokrovka-1 are approaching full depletion, on-going production potential remains at Pokrovka-2 and areas surrounding both deposits.

Exploration of the Pokrovskiy licence area continues in order to identify additional non-refractory resources, and this may result in a further extension of the current mine life.

Mining and processing

The current mining operations at Pokrovskiy are focused on two pits: the main pit at the Pokrovka-1 deposit and a second pit at Pokrovka-2 satellite deposit. In 2011, mining also commenced at a further satellite deposit at Zheltunak.

The designed mine capacity at Pokrovskiy is 2,100Ktpa for the RIP plant and 800Ktpa for the heap-leach facilities. The heap-leach facilities are used to treat lower grade material and operate during the warmer season, typically from April to November.

During 2011, Pokrovskiy produced 91,800oz of gold – a planned decrease compared with 2010, due to the decrease in grades processed as the mine approaches the end of its mining life. The mining operations were carried out mainly at two pits: the main pit at the Pokrovka-1 deposit and a second pit at the Pokrovka-2 satellite deposit. In 2011, mining also commenced at a further satellite deposit at Zheltunak.

Pokrovskiy mining operations

	Units	**Year ended 31 December 2011**	Year ended 31 December 2010
Total material moved	m³ '000	**6,560**	6,209
Ore mined	t '000	**1,076**	1,706
Average grade	g/t	**2.0**	2.4
Gold content	oz '000	**68.1**	131.3

1.78Mtpa of ore were processed at the RIP plant and 0.8Mtpa of ore at the heap-leach facilities in 2011. Production from Pokrovskiy's heap-leach operations accounted for approximately 16.5% of the total annual production of the mine.

Costs

In 2011, the total cash cost per ounce at the Pokrovskiy mine increased by 35% to US$759/oz from US$561/oz in 2010. This was in line with the Group's expectations as the increase was due to the lower grades of ore mined and processed, a higher strip ratio, and input costs inflation. The year-on-year decrease in grades processed through the mill was 40% and the strip ratio increased by 75%. However, the increase in costs was mitigated significantly following the implementation of efficiency-improving measures at operations resulting in a 2% decrease in costs per tonne mined and processed compared with the previous year.

Safety performance

OJSC Pokrovskiy Rudnik, the Group subsidiary which holds the Pokrovskiy and Pioneer licences, reported a lost time injury rate of 1.26 per million man hours worked across all the sites it holds, down from 1.78 in 2010. The reported number of violations of the Group's internal safety rules decreased to 35 from 59 over the same period.

This was achieved despite a considerable increase in mining operations and the corresponding increase in the number of man hours worked.

Outlook

Total production from Pokrovskiy in 2012 is expected to be 68,000oz, as mining progresses to the lower grade areas of the mine's deposits.

Exploration at Pokrovskiy has indicated sufficient quantities of non-refractory material available for processing until the beginning of 2017. In 2013, the Group is planning to install a POX facility at the Pokrovskiy site to process flotation concentrate from Malomir and Pioneer. After 2013 the RIP plant is expected to be gradually converted to work as an integrated part of a POX hub, whilst remaining low-grade reserves will be treated through heap-leach operations.

Exploration is continuing at other parts of the Pokrovskiy area which may result in the discovery of additional resources, providing a possible further extension to the life of the mine.

01


01 The main pit at the Pokrovka-1 deposit.

Go to page 44 for more on the POX hub

Go to page 67 for a breakdown of Ore Reserves and Mineral Resources for Pokrovskiy

Go to page 62 for more on exploration work at Pokrovskiy

Pokrovskiy processing operations

	Units	Year ended 31 December 2011	Year ended 31 December 2010
RIP plant			
Total milled	t '000	**1,782**	1,760
Average grade	g/t	**1.63**	2.7
Gold content	oz '000	**93.3**	152.5
Recovery rate	%	**82.0**	84.8
Gold recovered	oz '000	**76.6**	129.3
Heap-leach			
Ore stacked	t '000	**819**	742
Average grade	g/t	**0.8**	0.9
Gold content	oz '000	**20.7**	22.2
Recovery rate	%	**73.7**	70.2
Gold recovered	oz '000	**15.2**	15.6
Total gold recovered	oz '000	**91.8**	144.9

Our Assets: Pioneer

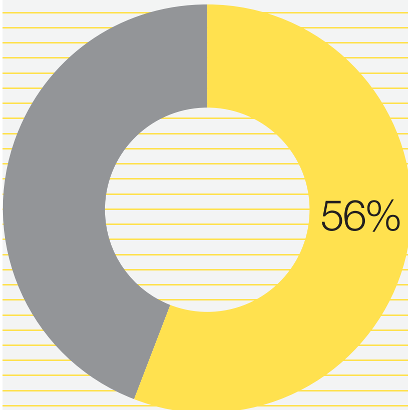
“Our flagship mine, Pioneer, is one of the gems in Petropavlovsk’s gold crown. Not only does it currently contribute about half of the Group’s production as one of the largest mines in Russia, but it also proved the success of our business strategy to develop sizeable assets cost-efficiently and in record time through a series of staged expansions.”

Sergey Ermolenko
Chief Executive Officer

01 The Pioneer mine.

01

Contribution to the Group’s 2011 gold production



Location

Pioneer is located in the western part of the Amur region, 40km north-north-east of Pokrovskiy and approximately 40km north of Tygda, on the Trans-Siberian Railway.

Pioneer
Producing 359,100oz in 2011, Pioneer is the Group's flagship mine and one of the largest gold mines in Russia.

The mine was developed in-house and in a modular fashion. The licence was acquired in 2001 as a greenfield site. After intensive exploration and project development, full-scale mining started in 2007 and the Pioneer processing plant produced its first gold in April 2008 using a 600Ktpa milling line. Since the plant was first commissioned, it has been expanded twice to reach its current capacity and a further expansion is scheduled for H2 2012. This, together with the planned expansion of the heap-leach facility, will increase the annual designed processing (RIP + HL) capacity at Pioneer to 8,000Ktpa.

Geology
The Pioneer deposit is located on the south side of the Mongolo-Okhotskiy fold/thrust line within the belt of mineralisation associated with the collision of the Eurasian and Amur plates. Gold mineralisation at Pioneer is a result of hydrothermal activity associated with volcanism during the Mesozoic period. The deposit consists of several steeply dipping mineralised zones that form the Pioneer structure. In addition, the higher grade Andreevskaya zone is located 1.3km to the south-east of the Pioneer main structure.

The Pioneer deposit contains both free milling and refractory gold mineralisation with average grades of 1.0-2.0g/t and up to 20-50g/t in high-grade areas. The top 20-50m of the mineralised zones are oxidised, containing ore suitable for RIP or heap-leach extraction. In addition, the entire Andreevskaya and higher grade parts of primary mineralisation in NE Bakhmut are also non-refractory. The refractory material is amenable to recovery by flotation followed by autoclave oxidation and cyanide leaching.

Pioneer remains prospective for finding further additional gold resources. Targets identified in 2011 are expected to be included in the reserves and resources, prolonging Pioneer's non-refractory mine life beyond 2016.

The initial prospecting at the newly acquired licence areas surrounding the original Pioneer licence has indicated the potential discovery of further high-grade mineralised zones. Exploration is on-going and the Group's geologists consider this area to be one of the most prospective for expansion of the Group's reserves and resources base.

Mining and processing
Pioneer is an open-pit mine which currently processes non-refractory ore only. The majority of this, approximately 98%, is processed at the on-site 4.6Mtpa RIP plant. Cyanide heap-leaching is used to treat remaining lower grade ore.

During 2011, Pioneer produced 359,100oz of gold, a 56% increase on 2010, representing more than half of the Group's total production for the year. This strong overall performance in 2011 followed a series of measures to improve on-site efficiencies at Pioneer, which were implemented following a comprehensive review in Q1 2011. During 2011, daily mining volumes increased by approximately 20%, offsetting inflationary pressures on cash cost of production at the mine.

31.6 million m^3 of material was moved during 2011, an increase of 61% on 2010 (19.6 million m^3). This increase reflects the contribution of both the final additions to the mining fleet, which were delivered at the beginning of 2011, and changes

Pioneer mining operations

	Units	**Year ended 31 December 2011**	Year ended 31 December 2010
Total material moved	m^3 '000	**31,615**	19,600
Ore mined	t '000	**8,473**	3,900
Grade	g/t	**1.8**	2.1
Gold	oz '000	**479.3**	265.7

Pioneer processing operations

	Units	**Year ended 31 December 2011**	Year ended 31 December 2010
RIP plant			
Total milled	t '000	**4,700**	3,943
Average grade	g/t	**2.8**	2.1
Gold content	oz '000	**421.8**	269.5
Recovery rate	%	**83.2**	84.3
Gold recovered	oz '000	**351.0**	227.1
Heap-leach			
Ore stacked	t '000	**405**	280.4
Average grade	g/t	**0.7**	0.8
Gold content	oz '000	**11**	7.4
Recovery rate	%	**73.6**	51.3
Gold recovered	oz '000	**8.1**	3.8
Total gold recovered	oz '000	**359.1**	230.9

Key facts

- Hard-rock gold mine, open-pit
- JORC reserves and resources: 4.25Moz resources, 2.42Moz reserves
- Total project area: 524.8km²
- 2011 production: 359,100oz
- 2011 total cash costs: US$530/oz
- Current designed processing capacity: 4,600Ktpa RIP plant + 1,400Ktpa heap-leach facility

to the organisation of on-site mining works. Due to the volume of stripping work conducted during 2011, the backlog of stripping accumulated at the end of 2010 was fully cleared.

The increase in production at Pioneer also reflects the scheduled mining and processing of higher grades during Q3 2011, and the full contribution of the third RIP processing line, commissioned in April 2010.

During 2011, small-scale heap-leach operations were carried out at Pioneer, processing 405,000 tonnes of ore at an average grade of 0.7g/t Au, recovering a total of 8,100oz of gold. It is planned that heap-leach operations will be significantly expanded in 2012, processing about 1.4Mtpa of ore.

The Board is pleased to report that management restructuring at Pioneer completed in 2011 has resulted in a significant strengthening of operational efficiency.

Costs

Total cash costs at Pioneer decreased by 3% in 2011 to US$530/oz compared with US$549/oz in 2010, despite on-going pressure from input costs, inflation and a strong Rouble. This improvement was achieved due to a series of measures implemented by the management team in response to problems which occurred at the mine in 2010. During 2011, the mine management team continued to implement these measures, delivering further cost savings and increased profitability. Total cash costs also benefited from the increase in grades processed during 2011, partially reflecting good exploration results during the year.

Go to page 62 for more on exploration work at Pioneer

Go to page 68 for a breakdown of Ore Reserves and Mineral Resources for Pioneer

Outlook

Following the success of the 2011 exploration programme, which resulted in a significant increase in non-refractory reserves at the mine, the Group decided to bring forward the expansion of Pioneer's production capacity to Q3 2012, with the commissioning of a fourth 2.0Mtpa RIP processing line. Originally scheduled for 2014, this expansion will significantly improve the Group's production output in both the short and medium term. The fourth RIP milling line will consist of one 7.5mx2.5m SAG mill and two 4.0mx6.0m ball mills and a sorption and desorption circuit. The new milling line will have a design capacity of 2.0Mtpa, taking Pioneer's overall design capacity, including its heap-leaching facility to 8,000Ktpa.

The 2012 production target at Pioneer is 286,000oz, reflecting the scheduled processing of lower grade material. However, this target does not fully include the planned milling expansion at Pioneer.

The current reserves of non-refractory material at the project are expected to support production until 2016. It is anticipated that the processing of refractory ore will commence in 2015 following the installation of a flotation unit at Pioneer. The resulting flotation concentrate will then be transported approximately 40km, using all-weather roads, to be processed at the Pokrovskiy POX hub.

Alluvial operations

Alluvial mining is a simple, very well-established and proven low-risk technology that has been employed in Russia for many decades. It involves the removal of overburden using conventional truck-and-shovel mining or bulldozers. The gold-bearing gravels are then washed using a sluice or a dredge (a floating washing plant). This technique doesn't require significant capital expenditure and can be easily halted depending on the prevailing market environment.

Alluvial mining uses water with no added chemicals and also does not require blasting or rock crushing. At many operations, the Group is reworking sites previously developed during Soviet times, re-processing material that was historically mined at these sites thereby reducing its environmental footprint.

Alluvial production is seasonal, occurring during the warmer months of the year (usually from May to November). Preparations for the production season are typically made in winter when the team outlines the areas of workings and makes plans for the production season, as well as conducts the essential maintenance work on the equipment.

In 2011, the contribution of alluvial operations to the Group's output was 89,600oz equating to approximately 14% of the Group's overall gold production for the year. This share is expected to decrease with the increase of production from hard-rock deposits.

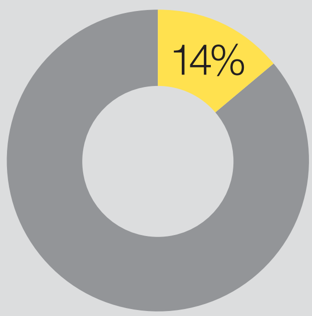
The majority of 2011 production came from the Group's principal alluvial operations located in the Amur and Magadan regions. In 2011, 36,170oz was produced in Amur region and 49,707oz in Magadan region. A smaller operation in Yakutia (Uduma) contributed 3,685oz of production.

Typically alluvial operations carry higher production costs as they are heavily reliant on diesel and process lower grade material. In spite of this, production from alluvial deposits in the current high gold price environment generates healthy margins.

2011 total cash costs for the Group's alluvial operations were US$1,167/oz – 36% higher than in 2010 (US$861/oz). This figure was broadly in line with expectations, as alluvial mining typically requires more costly overheads than hard-rock mining. A large proportion of costs at these operations is attributed to diesel which has increased by 36% year-on-year.

In 2012, the Group is planning to produce 92,000oz from alluvial operations.

Contribution to total production in 2011



Location

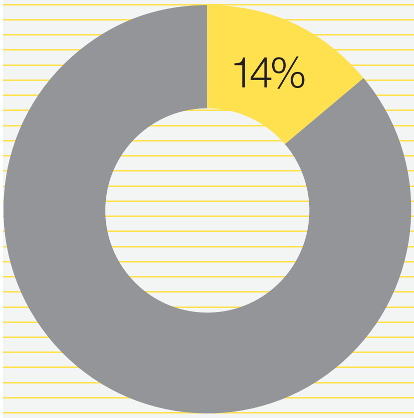
Following the acquisition of Omchak in 2010, the Group operates a number of subsidiaries exploiting alluvial gold deposits in the Amur, Magadan and Yakutia regions of Russia.

Our Assets: Malomir

"The commissioning of Malomir drew on our past experience and equipped us for our future expansion: our experience at Pioneer had enabled us to implement large-scale mining works and the additional practical knowledge we subsequently acquired during construction at Malomir greatly helped when we started to develop Albyn, which is also located in a remote area."

Anatoly Kochubey
General Director of the Malomir and Albyn mines

Contribution to the Group's 2011 gold production



Location

Malomir is located in the north-east of the Amur region, c. 670km east of Pokrovskiy by road and c. 120km north-east of Fevralsk, on the Baikal Amur Railway.

01 Mining of non-refractory ore at the Quartzitovoye pit at Malomir.

Key facts

- Hard-rock open-pit gold mine
- JORC reserves and resources: 9.81Moz resources, 3.94Moz reserves
- Total project area: c. 40km^2
- 2011 production: 88,500oz
- 2011 cash costs: US$615/oz
- Current designed processing capacity: 1.7Mtpa RIP plant

Malomir

Malomir is an open-pit gold mine in the north-west of the Amur region. Malomir was acquired as a greenfield site and explored and developed in-house.

The Group commissioned the RIP processing plant in two phases. The first phase, in 2010, had a design capacity of 0.7Mtpa expanding to 1.2Mtpa in 2011. Both phases were commissioned on-schedule by the Group's in-house specialists, notwithstanding Malomir's remote location. Following improvements implemented between November 2011 and February 2012, plant capacity increased further to 1.7Mtpa.

Geology

Two styles of gold mineralisation have been discovered at Malomir. The first is confined to a large flat tectonic zone and has been traced by drilling to more than 1,500m in strike length and to 350m in depth. This mineralisation contains 2-3% sulphides, mostly pyrite and arsenopyrite with some organic carbon. The second type is found in steep dipping structures striking from south to north holding a high-grade non-refractory gold resource. Gold here is also associated with pyrite and arsenopyrite but in contrast with the first type it has no carbon and the gold can be recovered using conventional RIP process.

Exploration conducted by the Group in previous years revealed the Malomir licence area to consist of three deposits: the central Malomir deposit and two further deposits, Ozhidaemoye and Quartzitovoye. Malomir and Ozhidaemoye contain mainly refractory mineralisation. Quartzitovoye is a high-grade, predominantly non-refractory, ore body.

The Group has defined a significant reserves and resources base of refractory material at Malomir and the increase in non-refractory reserves is becoming the focus of the exploration programme. The main Quartzitovoye zone is open to depth, offering further exploration potential. Group geologists are continuing the drilling programme at the edges of the non-refractory Quarzitovoye ore pit and at the prospective structures parallel to it.

Mining and processing

Malomir is a modern open-pit mine. The feasibility study proposes a two-stage development: an initial smaller scale production of non-refractory material, followed by large-scale mining operations and the commissioning of a flotation plant. Flotation concentrate will be taken to the Pokrovskiy POX hub for further processing. Currently, only non-refractory ore is being processed.

In 2011 Malomir produced 88,500oz of gold, a significant increase on 2010. The increase in production followed the successful 2011 expansion programme which saw the commissioning of the second milling line in July 2011, resulting in a 33% increase in Malomir's plant capacity to 80,000t/month in Q3 2011, compared with H1 2011. Improvements and expansion at the sorption section in Q1 2012 allowed for a further increase in capacity to 180,000t/month.

Costs

In 2011, total cash costs at Malomir increased by 30% to US$615/oz (from US$473/oz in 2010). This increase was as a result of a significant decrease in grades processed and input cost inflation. However, the increase in costs was lower than the combined effect of these two factors due to efficiencies and improvements implemented on-site. This included the optimisation of mining and handling operations and a significant increase in mining and processing capacities. Costs also benefited from economies of scale after the plant's expansion. In spite of strong inflationary pressures, the team managed to decrease costs per tonne of ore mined and processed by 13%.

Outlook

Malomir's 2012 production target of 118,000oz represents a 33% increase on 2011 production, reflecting the full-year contribution of the second RIP milling line (commissioned July 2011) and the effects of the sorption line expansion completed in Q1 2012. The average grade processed is expected to decline slightly as the commissioning of the second RIP processing line has allowed the mine to process lower grade material at similar cost levels to 2011.

The Group anticipates the commissioning of a flotation plant at Malomir by the end of 2012. The resultant flotation concentrate will be stockpiled on site for processing at the POX hub at Pokrovskiy in 2013 after it is commissioned.

The 2012 production target for Malomir excludes gold in flotation concentrate which will be produced following the commissioning of the flotation plant. In its earlier plans, the Group was intending to process this concentrate at a third-party facility, however, after evaluating this option in more detail, it was concluded that better return could be achieved by processing the concentrate in the Group's own POX plant in 2013. This change of plan was also supported by an increase in non-refractory reserves at Malomir and Pioneer which should enable the group to reach the same levels of production without entering into costly contracts for toll treatment of the concentrate.

Malomir mining operations

	Units	Year ended 31 December 2011	Year ended 31 December 2010
Total material moved	m^3 '000	**9,094**	2,568
Ore mined	t '000	**1,981**	601
Grade	g/t	**2.4**	3.2
Gold	oz '000	**152.5**	62.7

Malomir processing operations

	Units	Year ended 31 December 2011	Year ended 31 December 2010
RIP plant			
Total milled	t '000	**925**	240
Average grade	g/t	**3.8**	5.4
Gold content	oz '000	**111.6**	41.4
Recovery rate	%	**79.3**	88.0
Gold recovered	oz '000	**88.5**	36.4

Go to page 69 for a breakdown of Ore Reserves and Mineral Resources for Malomir

Our Assets: Albyn

"Albyn is the newest addition to our gold mining portfolio, and is especially exciting because it is located in one of the key gold producing areas of the Amur region, where gold has been extracted by alluvial miners for over 120 years. The combination of our existing mining infrastructure and our three prospective licence areas being located near to the plant gives us a strong base on which to significantly increase the gold output from this project in the near future."

Valery Alekseev
General Director of Kapstroi

Location

Albyn lies c. 190km by road from Malomir and 70km by road from the Tokur deposit in the Selemdja district in the north-east of the Amur region.

01/02 Mining at Albyn.

01

02

Key facts

- Hard-rock open-pit gold mine
- JORC reserves and resources: 2.24Moz resources, 1.36Moz reserves
- Combined total licence area: c. 1,006km^2
- Processing capacity: 1.8Mtpa RIP plant
- Processing capacity by the end 2012: 3.6Mtpa
- 2011 production: 1,100oz (25 November 2011 to 31 December 2011)

Albyn

Albyn is an open-pit mine in the north-east of the Amur region. It was acquired by the Group as a greenfield site in 2005. In 2010, two further licences were obtained: Elginskoye, located 15km away from the Albyn processing plant; and Kharginskoye, the extension of the main Albyn licence area in a south-easterly direction.

Geology

The mineralisation at Albyn comprises a series of gently dipping sub-parallel metasomatic zones that show variable thickness and grade, extending for approximately 4.5km in strike length, and which appear to be open along strike in both directions. Albyn can be broadly divided into three areas, comprising the central, western and eastern zones. In the central zone, the mineralised package has a thickness of up to 110m.

In addition, the Sukhoi Log zone of gold-bearing veins and veinlets is located some 500-800m north of the Albyn zone. It has been traced along strike for 2.5km with the quartz veins historically mined by underground workings since the 1950s at the Kharginskoye gold tungsten deposit.

Ore at Albyn contains coarse particles of visible gold, and metallurgical tests completed to date have shown with confidence that the mineralisation is suitable for direct cyanide leaching and amenable to processing using lower cost RIP techniques. These tests have concluded that gravity separation recovery is in the range of 79.3% and 95.2%, sorption cyanidation recovery is between 92% and 97.3%, whereas heap-leaching achieved recoveries of 50.3% to 89.1%.

The Albyn deposit and its surrounding flanks remain highly prospective. For this reason, it remains one of the most important areas of focus for the Group's geological team. Initial geochemical and geophysical results on the new licence areas indicate new exploration targets that have, to date, been excluded from Albyn's current resource statement. The most prospective results have been at the Elginskoye licence area, where a number of intersections indicate a significant, industrial sized, area of mineralisation. Exploration work at these areas will continue throughout 2012.

Mining and processing

Albyn was commissioned in November 2011, slightly ahead of the Group's planned commissioning date of mid-December 2011. This was achieved despite the logistical challenges faced by the team due to the remoteness of the project which is located in the far north-east of the Amur region, approximately 836km (by road) from the Pokrovskiy mine, and severe weather conditions experienced during the period of commissioning and ramp-up.

Mining at Albyn is conducted by open-pit methods. On the basis of the results of extensive test work, the Group designed an on-site 1.8Mtpa RIP plant that is used for the treatment of ore. The plant is scheduled for further expansion in H2 2012 doubling its current capacity.

The current processing facilities consist of one 7.5mx2.5m SAG mill, two 4.0mx6.0m ball mills and a sorption and desorption circuit with 400m^3 tanks. Following its commissioning, the RIP plant at Albyn produced 1,100oz of gold during the remaining weeks of 2011. This was ahead of the Group's estimate, reflecting the timely commissioning of the mine.

Safety performance

Malomir and Albyn recorded a combined lost time injury rate of 2.88 per million man hours worked, down from 6.07 at Malomir in 2010. There were no violations of internal safety regulations. This was achieved despite the significant expansion of the two projects and the related influx of labour during 2011.

Costs

As the project will continue to ramp-up during 2012 and another line is planned for commissioning, cash costs are expected to be somewhat higher than average for the life of the project. Due to the earlier commissioning and the continued construction of infrastructure elements including power lines, a significant amount of electricity is currently being generated by diesel generators. Electricity produced by diesel generators is relatively expensive and has negatively affected operating costs. All mining equipment on-site is also currently powered by diesel. Due to the high stripping coefficient it is expected that total cash costs per tonne of ore mined at Albyn in 2012 will be in line with those at Malomir.

Outlook

The Group expects the Albyn plant to ramp-up to its full operating capacity from the beginning of April 2012. Work on connecting the plant to the electricity grid is expected to be finalised during H1 2012. The diesel generators will be then used as a stand-by emergency power supply unit, which is considered essential for reducing operational risk for such a remote site.

Following successful exploration work in 2011, Albyn's reserves and resources base significantly increased and a decision was taken to bring forward the expansion of the plant to H2 2012, from the original plan of 2014. Work on laying the foundations for this project has started.

The capacity of the second RIP milling line is expected to be similar to the first, and it is expected that by the time both milling lines are fully ramped up, the total capacity of the Albyn plant will be approximately 3.6Mtpa.

In 2012, the Group is targeting production of 116,000oz for Albyn. This target provides for a conservative view of the ramping up of the processing plant and does not fully provide for production increases resulting from the commissioning of the second milling line in H2 2012.

Albyn processing operations

	Units	**Year ended 31 December 2011**	Year ended 31 December 2010
RIP plant			
Total milled	t '000	**39**	0
Average grade	g/t	**1.1**	0.0
Gold content	oz '000	**1.3**	0.0
Recovery rate	%	**85.6**	0.0
Gold recovered	oz '000	**1.1**	0.0

Go to page 64 for more on exploration work at Albyn

Go to page 70 for a breakdown of Ore Reserves and Mineral Resources for Albyn

Our Assets: Yamal and Chita Region

Yamal region assets
- Three projects at advanced evaluation and pre-development stages
- 0.37Moz of JORC reserves and 1.07Moz of JORC resources
- Combined total licence area: c. 1,690km²

Chita region assets
- Three projects at exploration, advanced evaluation and pre-development stages
- 0.74Moz JORC resources
- Combined total licence area: 69km²

Yamal region assets
In the Yamal region, the Group holds licences for the Petropavlovskoye and Novogodnee Monto gold deposits, as well as Sob-Kharbeiskaya, an asset at an early stage of exploration, which is approximately 40km west from Petropavlovskoye. The Zapadnoye chromite deposit was successfully sold at the beginning of 2012.

Petropavlovskoye and Novogodnee Monto are two adjacent ore bodies located alongside the Obskaya–Bovanenkovo rail line, which connects them to the Russian national rail network and to the Labytnangi port on the Ob River. Since their acquisition in 2004, the Group has completed extensive exploration and other essential technical work progressing the deposits from greenfield sites to an advance pre-development stage project.

The gold mineralisation at Petropavlovskoye and Novogodnee Monto occurs in quartz-carbonate-sulphide metasomatite stockwork and in magnetite scarn. Deposits are associated with Devonian-Carboniferous igneous intrusions hosted by a Silurian-Devonian volcanic and sedimentary sequence.

In addition to significant JORC gold reserves and resources, Novogodnee Monto holds c. 3Mt of high-grade magnetite iron ore and substantial reserves of industrial aggregates within the host un-mineralised waste rock. Metallurgical tests have proved gold to be non-refractory and amenable to direct cyanidation.

In 2011 quarrying began at the site, with material processed through a mobile crushing and screening plant, producing saleable aggregate. Sales contracts have now been signed and first aggregate sales were carried out in Q1 2012.

The Group continues to develop Petropavlovskoye and Novogodnee Monto and is currently in the process of finalising optimal processing flow sheets and a development plan. It is expected that gold production will commence in 2014.

Go to page 65 for more information on exploration results at Yamal

Go to page 72 for a breakdown of reserves and resources

Chita region assets
The Group holds three prospective assets in the Chita region, of which the most advanced, the Verkhne Aliinskoye high-grade deposit, is currently at a stage of pre-development. Work at the other two licence areas, Kulinskoye and Bukhtinskaya, is less advanced, but already reflects the great exploration potential of the region.

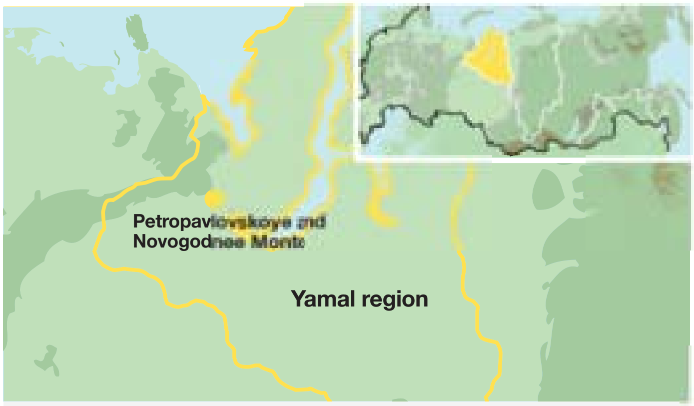
The Verkhne Aliinskoye deposit is situated 30km west of the town of Baley, a well-known historical gold mining centre. It is a high-grade, narrow vein deposit potentially suitable for underground mining. The deposit is hosted within a monzonite intrusion and comprises a large number of quartz-sulphide veins with a strike length of up to several hundred metres.

Through exploration and comprehensive technical work, Verkhne Aliinskoye has been developed to an advanced pre-production stage with total JORC resources of 0.74Moz of gold at 6.25g/t including 0.27Moz in the *Measured* and *Indicated* categories. The deposit is underexplored, with many of the veins open both along strike and down dip.

The mineralisation at Verkhne Aliinskoye varies in composition between refractory and non-refractory, with the majority being non-refractory and amenable to cyanide recovery from flotation concentrate. The Group is considering two development options: the treatment of the concentrate at the future Pokrovskiy POX hub or the on-site processing of the flotation concentrates. Verkhne Aliinskoye is at an advanced stage in the permitting process and management is working on an optimal mine plan for the asset.

The Bukhtinskaya and Kulinskoye licence areas are located in the eastern part of Chita, on the border with the Amur region. Both assets are at exploration stage, with known narrow high-grade vein mineralisation. Exploration of these licence areas is on-going.

Go to page 74 for a breakdown of reserves and resources for Verkhne Aliinskoye



Location
The Group's Yamal assets are located on the eastern slopes of the Polar Ural mountains, 60km from the regional capital, Salekhard. The Yamal region is part of the Tyumen Oblast, and contains an estimated 90% of Russia's natural gas reserves. The Polar Urals host a number of industrial commodities and precious metals.

Location
The Chita region is part of the Zabaikalskiy Krai and is a major, historical gold producing region of Russia. The Group's assets are situated within easy reach of the Trans-Siberian Railway, which provides a link to Pokrovskiy, the location of the Group's future POX hub.

Our Assets: Tokur and Krasnoyarsk Region

Tokur region assets
- Hard-rock deposit at a semi-industrial production stage
- 0.20Moz JORC reserves; 1.40Moz JORC resources
- Total licence area: 4.8km^2

Krasnoyarsk region assets
- Hard-rock deposit at a pre-production stage, exploration licences
- 1.22Moz JORC reserves and 3.03Moz JORC resources
- Combined total licence area: 1,048.1km^2

Tokur
Tokur is a former underground mine which was mined successfully between 1939 and 1992 and was acquired by the Group in 2003 with a view to resuming mining works and turning it into an open-pit operation. Due to its location, which is halfway between the recently commissioned Malomir and Albyn mines, Tokur makes an important regional centre for processing exploration samples from all sites in the north and east of the Amur region. A fire assay and sample preparation laboratory belonging to the Group operates at the site.

Tokur mineralisation is represented by high-grade narrow veins which were mined through a series of underground adits during Soviet times, but mining at the site was abandoned in 1992.

After completing an additional drilling programme in 2008, Group experts re-evaluated Tokur for open-pit mining, defining JORC-compliant Ore Reserves within the Glavniy fault zone, south of the historical underground mine.

A small-scale operation involving the mining and re-processing of historical low-grade waste dumps was commissioned in 2009. The material is washed through a sluice to recover the free gold and to remove clay and dirt, preparing it for the next stage of X-ray separation. At this stage, the ore is put through a sorting machine which uses an XRF analyser to separate ore from waste, upgrading it to a c. 4g/t Au pre-concentrate.

During 2011, approximately 400oz of gold was recovered at the Malomir RIP plant from Tokur pre-concentrate.

After the successful completion of the feasibility study at the end of 2011, the Group's specialists started work on the design of the future processing plant at Tokur. It is expected that the Tokur plant will be commissioned in H2 2014.

Go to page 73 for a breakdown of reserves and resources

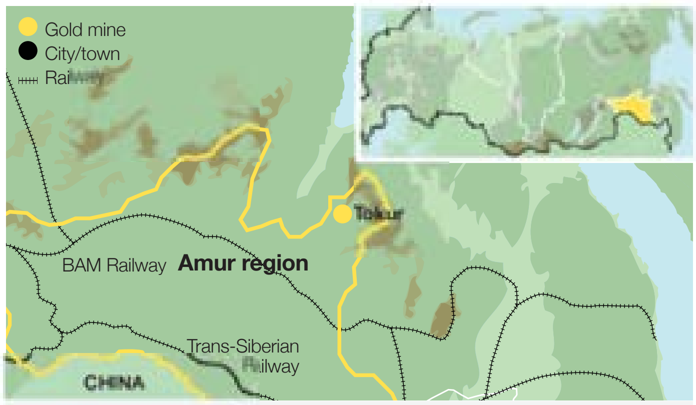
Krasnoyarsk region assets
In the Krasnoyarsk region, Group assets include the significant Visokoe non-refractory deposit, currently at a pre-production stage, as well as the Troeusovskaya and Verkhnetisskaya exploration licences. All three assets are located on the Yenisey Ridge, which has been a key area for the Russian gold mining industry for decades and is home to large, well-known, deposits such as Olimpiada and Blagodatnoe, both operated by Polyus Gold.

The Visokoe site is located approximately 50km north-west of the village of Teya and 70km north-west of Severo-Yeniseyskiy, with its long history of mining of the Sovetskoe gold deposit. Mineralisation at Visokoe is confined within a single, large bulk zone 40-70m thick and with a strike length of 1.7km. The zone has been traced to a depth of approximately 440m without any indications of narrowing out. With its low strip ratio, Visokoe is well suited for low-cost and highly productive open-pit mining.

Exploration and other technical work completed at Visokoe during 2011 allowed the Group to define JORC-compliant Ore Reserves and to significantly improve its mineral resource position. The Group's specialists are finalising the development plan for this asset, considering processing either through an RIP plant or heap-leach operations. This work is expected to be finalised during the course of 2012. The first production from the Visokoe deposit is currently scheduled for the short to medium-term.

Troeusovskaya and Verkhnetisskaya are two adjacent exploration licences with a combined area of over 1,000km^2, located approximately 50-70km south of Visokoe and 70-80km west of Severo-Yeniseyskiy. At the Troeusovskaya early stage exploration site, the Group has been testing historically known and recently discovered geochemical anomalies which indicate the presence of a significant gold mineralisation. At Verkhnetisskaya, the Group has completed limited trenching and drilling, discovering a new mineralised zone that is still being assessed. Exploration will continue during 2012.

Go to page 71 for a breakdown of reserves and resources
Go to page 64 for more details on the exploration results

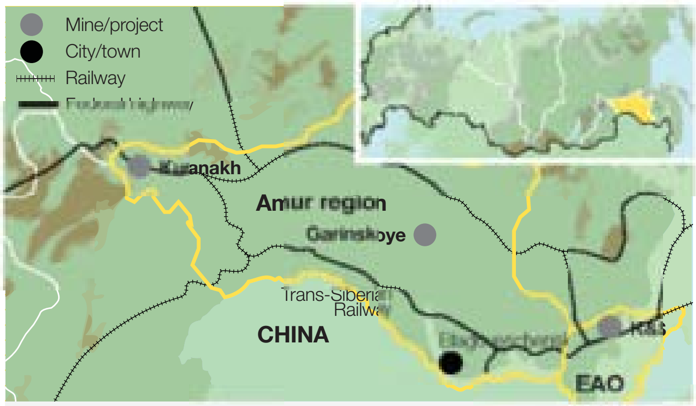


Location
Tokur is located in the north-eastern part of the Amur region, in an area of intensive historic alluvial mining. The area has good infrastructure including: an all-season access road, power supply and a related mining town.

The Krasnoyarsk region is one of Russia's most prospective mining areas and the location of world-class gold, nickel and other mineral deposits. The Group is exploring the possibility of developing all of the assets in this area as one cluster due to their synergies.

IRC

2011 was a landmark year for IRC as it achieved many key milestones and grew closer to its vision of being a Sino-Russian industrial commodities champion.



IRC assets

With operations in the Russian Far East, IRC has rapidly developed to be a vertically integrated supplier of intermediary and finished industrial commodity concentrates to Russian, Chinese and international markets.

The IRC assets previously formed the Group's Non-Precious Metals division, having been amalgamated into the Group following the acquisition of Aricom plc in April 2009. In October 2010, the Group completed the listing of IRC's shares on The Stock Exchange of Hong Kong Limited.

IRC has a portfolio of exploration and mining assets located in the Amur region and neighbouring EAO region in the Russian Far East. Its principal assets are the Kuranakh mine, which produces iron ore and ilmenite concentrates. The larger K&S project is being developed, and the larger still Garinskoye deposit is currently being optimised to provide IRC with a diverse asset portfolio for short- and long-term growth.

IRC's success is due to a combination of geology and geography. Large, high-grade Ore Reserves are exploited using Russia's world-class mining and technical skills, water and power infrastructure. The strategically advantageous asset locations and developed rail infrastructure permit the rapid transport of IRC's products to the local market, Chinese border and Russian Pacific ports.

Further information on IRC may be found at www.ircgroup.com.hk

01 Mining at Kuranakh.

IRC in 2011

2011 was IRC's first full production year since listing. Although still in a ramp-up phase, production at the Kuranakh mine exceeded targets. Development activities at the K&S project advanced according to plan and budget during the year, putting that operation on track to bolster production by an additional three million tonnes of high-quality iron ore concentrate in the near-term. Finally, IRC's extensive exploration portfolio continued to add value, both at brownfield and greenfield sites.

Kuranakh

The Kuranakh mine came into production in 2010, becoming IRC's first producing mine. The operation covers 85km^2 and comprises the Kuranakh and Saikta deposits; an on-site crushing and screening plant and the nearby Olekma processing plant. The final products, an iron ore concentrate with a 62.5% iron (Fe) content and an ilmenite concentrate with a 48% titanium dioxide content (TiO_2), are directly loaded onto railcar wagons for transportation on the BAM and Trans-Siberian Railways to its customers in Russia, China and internationally via the Russian Pacific ports.

Production

In October 2011, the mine achieved full production capacity for iron ore concentrate at an annualised 900,000 tonnes per annum. This resulted in a significant increase in production for the year to a total of 800,000 tonnes, 7% higher than targeted production. Full annual capacity of ilmenite concentrate is targeted during 2012. During 2011, production did, however, increase to 63,500 tonnes, 22% ahead of the 52,000 tonne target. Based on current reserves, the life-of-mine is estimated at 15 years, with opportunities to extend this further.

Financial performance

During 2011, Kuranakh generated revenues of US$110.4 million. Cash costs for the year averaged US$66.2 per tonne. Longer-term production costs are currently forecast, at approximately US$60 per tonne as the ilmenite circuit ramps up. Transportation costs for Kuranakh iron ore concentrates to Suifenhe on the Chinese-Russian border averaged US$43.8 per tonne in 2011. It is anticipated that rail freight rates could reduce in the mid- to long-term.

2012 targets

During 2011, Kuranakh achieved its full production capacity. The target for iron ore concentrate for 2012 is 820,000 tonnes (62.5% Fe grade content). During 2012, the ilmenite circuit will continue to ramp-up to an annualised capacity of 160,000 tonnes, therefore production in 2012 is targeted at an intermediate level of 125,000 tonnes. Production increases should work towards improving unit and total costs.

IRC Limited: key facts

- 65.6% owned subsidiary of Petropavlovsk
- Producer and developer of industrial commodities
- Quoted on The Stock Exchange of Hong Kong Limited
- Independent Board of Directors and strong management team
- Fully funded growth plans with good year-end cash position

IRC 2011 highlights

- 8,000 tonnes of iron ore saleable product at the Kuranakh mine
- First shipments of ilmenite to Russian, Chinese and international clients
- First drawdown of project debt facility to fund K&S project
- Commencement of construction of K&S processing plant

K&S

K&S is an advanced stage development project which is currently on track for commissioning in 2014, with an initial annual production capacity potential of 3.2 million tonnes of high-grade iron ore concentrate. The operation comprises the twin deposits of Kimkan (the "K") and Sutara (the "S"). The former is currently being mined by open-pit methods, with ore being stockpiled for processing. At full production, it is anticipated the deposits will be mined sequentially, producing on average 10 million RoM tonnes per annum at an average grade of 35% Fe. The K&S processing plant will be situated between the two deposits. Construction began in 2010 and is due for completion in mid-2014. It is funded through a project finance facility provided by the Industrial and Commercial Bank of China ("ICBC") and is being constructed by China National Electric Engineering Company Limited ("CNEEC") with supervision from IRC.

K&S is well situated, close to the Trans-Siberian Railway which provides a direct route to the market. Furthermore, the recently upgraded main east-west federal highway is located close to the mine site. In addition to transport access, K&S also enjoys excellent electricity and water supplies.

In August 2011, IRC announced the favourable findings of a mine optimisation study for K&S, showing potential to nearly double production estimates from 3.2 to 6.1 million tonnes per annum by accelerating production from the Sutara deposit. IRC is completing a detailed feasibility study in 2012 to decide on the final method to optimise the long-term mine plan.

Costs

Long-term production costs at the K&S operation are currently forecast at US$33 a tonne of iron ore concentrate. The current cost of rail freight to Suifenhe on the Chinese-Russian border is approximately US$20 per tonne.

Garinskoye

Garinskoye is an advanced exploration project which covers 11.2km². In terms of resources, Garinskoye is the largest project in the IRC portfolio. Currently undergoing final geological investigation and mine planning, the project is targeting construction and first production from 2015. Adjacent to the project, IRC has exploration licences for ground covering over 3,500km².

Exploration activities at Garinskoye advanced well during 2011. Based on the results of geological modelling, the concept of two-stage development of Garinskoye could be considered. This could imply a DSO-style operation by mining the higher grade ore first.

Exploration

In addition to its three main mining assets, IRC also has significant other exploration opportunities, notably in and around the three main assets. In 2012, IRC total attributable resources grew 16% to 1,345 million tonnes of iron ore. More importantly, attributable iron reserves grew 24% to 801 million tonnes.

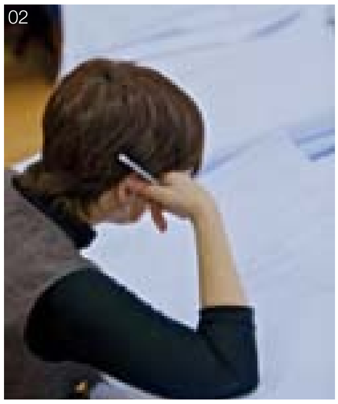
Going forward

IRC forecasts good production growth in 2012 and firm prices, targeting annual production of 820,000 tonnes of iron ore and 63,500 tonnes of ilmenite concentrates respectively.

Giproruda

Giproruda is a technical mining research and consultancy institute with operations in Russia and Asia. Giproruda's work includes the design, co-ordination, construction and commissioning of quarries and mines, in precious and base metals, as well as bulk commodities, particularly those located in challenging geological and climatic conditions, especially in Russia.

2011 was a successful year for Giproruda. Not only did the institute celebrate its 80th anniversary, but it also won new tenders as a sole consultant and in conjunction with industry partners. Giproruda also completed various contracts that have been instrumental to the development of IRC, however the focus of the institute's work is shifting increasingly towards other commodities and third-party work.



02 At Giproruda's offices in St Petersburg.

Exploration Report

2011 was a very successful year for exploration, particularly at Pioneer, Malomir and Albyn in the Amur region, at Visokoe in the Krasnoyarsk region and at Petropavlovskoye in the Yamal region.

"Geological exploration is one of the Group's top priorities and for this purpose, a comprehensive range of in-house geological exploration subsidiaries were established."
Nikolai Vlasov
Chief Geologist

Geological exploration is one of the Group's top priorities. The Group does not rely on the state to replenish its resource base and find new resources but invests in its own exploration. For this purpose, comprehensive in-house geological exploration subsidiaries were established.

Pioneer
In 2010, the Group acquired the larger Alkagan-Adamovskaya licence area surrounding the Pioneer deposit, as geological interpretation suggested the high-grade NE Bakhmut trend may continue into this new licence area. This concept has now been confirmed by the 2011 exploration programme, which identified a further extension of the NE Bakhmut ore body, including a new high-grade pay shoot. The zone contains both refractory and non-refractory mineralisation, and is yet to be fully evaluated.

Several other zones of mineralisation containing both refractory and non-refractory material were also identified. These include the Zvezdochka zone and a new zone south-east of NE Bakhmut. The latter zone was discovered late in 2011 and is yet to be fully understood and evaluated.

Further exploration and interpretation of the drilling results were completed for Nikolaevskaya, allowing classification of *Measured, Indicated* and *Inferred* category JORC Resources and also a JORC-compliant Ore Reserve evaluation for this zone. There is also an indication of potential new undiscovered zones south of Nikolaevskaya, as well as north of NE Bakhmut. Exploration of these areas is on-going.

The Group is continuing active exploration within areas surrounding the Pioneer deposit. Several geochemical anomalies were discovered in 2011, although the Group is waiting for further geological results.

Exploration in 2012 will focus within the area south and south-west of Nikolaevskaya, as well as north and north-east of current Pioneer pits at the occurrences known as Alkaganskiy, Zakritiy and Opytniy.

Pokrovskiy
Exploration at Pokrovskiy focused on upgrading *Inferred* Resources into *Measured* and *Indicated* categories at Pokrovka-2 as well as expanding resource size and proving ore body extensions.

At Zheltunak, an ore body located some 20km north-east from the Pokrovskiy deposit, exploration identified JORC-compliant Mineral Reserves and Ore Resources suitable for processing using the existing RIP plant at Pokrovskiy. This discovery was included in the Group's 2012 reserves and resources estimate and open-pit mining has already commenced at the site.

Malomir
Drilling at the areas surrounding, and adjacent to, the Quartzitovoye and Malomir Central open-pits, as well as north of the Ozhidaemoye deposit, has identified several further zones of refractory and non-refractory mineralisation. These new findings were only partly reflected in the Group's 2012 reserves and resource estimate as both the exploration programme and interpretation of results obtained during 2011 are still on-going. The findings include Zone 26, north of the Malomir Central open-pit, and the Kanavinskaya zone located north of Ozhidaemoye.

Mineralisation at Kanavinskaya is currently estimated to the *Inferred* category to be 11Mt at 0.7g/t. However, preliminary metallurgical tests indicate that mineralisation is non-refractory and could add 250Koz to the RIP Resource inventory. The current resource estimate for Zone 26 adds approximately 60,000oz to the refractory resource, including 800Kt at 0.95g/t *Indicated* and 1,400Kt at 0.77g/t *Inferred.*

- More than 1,500 qualified geologists
- 15 sites of active exploration during 2011
- 6 state-accredited laboratories
- c. 700,000 assay analyses performed in 2011
- c. 266,000m of drilling completed in-house in 2011

01 Drill core from the Albyn deposit
In-fill drilling completed in 2011 resulted in an increase in Albyn's resource estimate.

02 Geological map of the Amur region
The region contains an abundance of resources thanks to favourable geological conditions.

03 Weighing gold in fire assay
The Group's laboratories use a wide range of analytical methods, including fire assay. In total, the Group's laboratories analysed c. 700,000 gold samples in 2011.

Exploration Report continued

During 2011, further zones of mineralisation north-west of the operational Quartzitovoye open-pit were identified. These zones are expected to be non-refractory, but due to their location within the blasting safety zone, exploration has been progressing at a slower pace. However, the Group expects to include these zones in future Mineral Reserves and Resources statements.

At the Quartzitovoye high-grade ore body, new assay results resulted in improvements in both the resource size and the confidence of the estimate. The main Quartzitovoye high-grade ore body is still open at depth, indicating the potential to extend the size of the resource down dip.

Albyn

The 2011 exploration programme at Albyn and the surrounding area was very successful.

A comprehensive programme of trenching and in-fill drilling at Albyn resulted in an increase in *Measured* and *Indicated* Resources from 1.2Moz to 1.7Moz. The total resource, including the *Inferred* category, was also upgraded from 1.8Moz to 2.2Moz.

Further mineralised zones were identified west of the main ore body, where both flat dipping and steep high-grade narrow vein structures were explored. In the central area of the deposit, mineralisation was defined by drilling to a depth of 400m from the surface, with the gold grade increasing with depth. The Group has yet to establish where this mineralisation will begin to narrow.

At Kharginskoye, an extension of the Albyn licence area acquired in 2010, exploration identified several "Albyn-style" zones of mica-feldspar metasomatites with elevated gold grades. Exploration in this area will continue in 2012, when more conclusive results will be reported.

At Elginskoye, a new 325km^2 licence area located 15km west of the Albyn plant and acquired by the Group in November 2010, the exploration programme yielded its first positive results.

The area has extensive gold placers which were mined during Soviet times. The primary source of these placers has not yet been traced. The area's geology is similar to Albyn and the exploration results received during 2011 have confirmed the presence of an Albyn-style mineralisation, the extent of which is yet to be ascertained.

During 2011, the first trenching and drilling was completed at the Grozovoye and Elginskoye prospects, the two historically better explored targets within the licence area. At Grozovoye, a shallow-dipping mineralised zone with an exposed width of 100m was identified and sampled. Significant trenching and drill intersections include: 39m at 1.25g/t Au (trench K-430-1), 11.9m at 1.18g/t Au (drill hole C-430-32) and 1m at 17.8g/t Au (trench K-414-1).

A further shallow-dipping mineralised zone with a visible thickness of 100-150m was also identified at the Elginskoye prospect. Trench intersections received to date include: 44.3m at 1.45g/t Au, 18.5m at 1.42g/t Au, 27m at 2.44g/t Au and 2.3m at 4.23g/t Au. Drill hole intersections include: 17m at 2.01g/t Au and 9.8m at 1.36g/t Au (all thicknesses are apparent).

Exploration at the Elginskoye licence area remains at an early stage, with further promising targets due to be tested in 2012. These include a large (approximately 10km long) geochemical gold anomaly identified during the 2011 work. Group geologists believe that this area could become a significant addition to the main reserves and resources base of the Albyn mine.

Taldan and Osezhinskaya

The Taldan and Osezhinskaya licence areas are located in the western part of the Amur region in close proximity to each other. Taldan is situated approximately 150km by road from Pokrovskiy and 4km from the town of Taldan, which itself is situated on the Trans-Siberian Railway. The Osezhinskaya area was acquired in 2010 and is located 20km west of the town of Taldan.

In 2011, the Group completed preliminary exploration work at the Burinda deposit, which is located within the Taldan licence area. An *Inferred* gold resource of 0.34Moz was identified, with mineralisation open at depth.

In 2011, early stage exploration also started at the nearby Osezhinskaya licence area. Historical geochemical work had identified a large gold anomaly over a granite-porphyry intrusion located on the east side of the licence area. This intrusion is believed to be the source of gold placers, which are widespread in the river valley on the west flank of the granite. A strong Ag-Cu-Mo anomaly was identified north of the gold anomaly, which may indicate the presence of a copper-porphyry style mineralisation.

During 2012, the Group intends to continue exploration of Osezhinskaya. Based on 2012 results, the Group will re-evaluate further exploration plans at both Taldan and Osezhinskaya.

Osipkan

The Group finished its preliminary exploration at Osipkan in 2011. The results indicated the presence of modest-size non-refractory mineralisation containing 200,000-400,000oz of non-refractory gold at an average grade of approximately 1.0g/t which could be amenable for simple heap-leach processing. Preliminary tests showed heap-leach recovery of 60%, although fine grinding the ore increases recovery to 90%. The mineralised zone has wide exposure at the surface and is suitable for open-pit mining.

Sagur-Semertakskaya

Exploration results at Sagur-Semertakskaya included several high-grade intersections (up to 1.5m at 15.86g/t and 1m at 11g/t) which indicate that the area is prospective for the discovery of a modest to small-size narrow vein target for potential underground extraction. The Group is evaluating options to develop this asset further.

Krasnoyarsk region

In the Krasnoyarsk region, the Group has continued successful exploration at its significant non-refractory Visokoe deposit, as well as at the Troeusovskaya and Verkhnetisskaya licence areas.

Drilling and trenching completed at Visokoe upgraded the size of, and increased confidence, in the mineral resource estimate. *Measured* Mineral Resources were classified for the first time and the total Mineral Resources increased from 1.8Moz to 2.5Moz of gold. Geological results indicated that there is currently potential to increase Mineral Resources further. The Group also completed sufficient technical work to estimate a maiden *Probable* Ore Reserve for Visokoe (1.2Moz in 33.8Mt of ore at 1.13g/t Au).

At Troeusovskaya, a large (995km^2) licence located about 60km to the south of Visokoe, the Group identified a number of promising gold occurrences, including several significant gold-arsenic geochemical anomalies up to 7km in length. The presence of gold as well as arsenic, together with the overall favourable geological setting, indicates the potential to discover "Olimpiada-style" gold mineralisation. Olimpiada is a world-class gold deposit situated approximately 70km east of Troeusovskaya. The largest geochemical anomaly identified at Troeusovskaya to date is yet to be tested. Significant intersections obtained from the site in 2011 include 2.2m at 4.8g/t Au and 10m at 1.9g/t Au, with individual samples of up to 8g/t Au. Work remains at an early stage and further results will be reported in 2012.

The limited trenching and drilling work completed on the Olenka ore body within the Verkhnetisskaya licence identified a new mineralised structure with a strike in an east-west direction. Similar structures are well-known locally and are likely to host economic mineralisation. The latest results are being evaluated and the exploration programme is being adjusted to reflect these findings. The current resource estimate of 540Koz of *Inferred* resources at Olenka will be updated during 2012 to incorporate these new discoveries.

Yamal region

In the Yamal region, the Group continued its exploration programme at the Petropavlovskoye gold deposit and also started early-stage prospecting at the Sob-Kharbeiskaya licence area, which was acquired in 2010.

At Petropavlovskoye, the Group re-evaluated drilling results from the Novogodnee Monto gold and iron ore body, estimating an additional *Inferred* category resource of 0.26Moz of gold, as well as 3Mt of high-grade by-product iron ore at an average grade of 46% $Fe_{(tot)}$. Further gold mineralisation was also identified and explored north and south of the Petropavlovskoye main mineralised zone, adding approximately 0.1Moz of gold in *Inferred* category to the project's mineral inventory. The total JORC-compliant Mineral Resource estimate for the Group's Yamal region assets has now increased to more than 1Moz of gold.

Preliminary exploration results from the Sob-Kharbeiskaya licence area were promising, identifying a zone of gold mineralisation with potentially economic grades. Exploration at Sob-Kharbeiskaya remains at an early stage and is scheduled to continue into 2012.

New exploration licences

In June 2011, the Group won the auction for the 308km^2 Nimanskaya exploration and extraction licence area, located in the Khabarovsk region, some 90km south of Albyn. The area is well-known for extensive alluvial gold mining, which started here in 1874. It is estimated that between 4Moz to 5Moz of gold were recovered from the area, with 80% of the historical production coming from a 14x12km section of the Nimanskaya licence area.

Work completed by the Group's predecessors between 1994 and 1998 identified several zones of mineralisation along an 8km strike and up to 5km in width. Grades ranging from 0.2g/t to 20g/t of gold were identified in samples. The Group's predecessors concluded that the area has the potential for a resource of between 2Moz and 4Moz at an average grade of1.0-2.0g/t Au.

Licence review

During 2011, the Group carried out a review of the existing exploration and evaluation projects and recognised an impairment charge of US$42.1 million against certain mineral properties which are not considered economical.

01 Exploration drilling in the Amur region.

Gold Reserves and Resources

2011 saw another increase in Petropavlovsk's JORC-compliant reserves and resources estimate due to the success of the Group's on-going exploration programme.

The Group maintains its commitment to report its Mineral Resources and Ore Reserves in accordance with the JORC Code (2004). While the Russian Classification System for reporting reserves and resources remains in use within the Russian legal environment, forming the basis of the Group's accountability to the Russian state, Group reporting on reserves and resources at its hard-rock assets to investor audiences is carried out in accordance with the JORC Code (2004).

Group in-house specialists, in co-operation with external independent advisers, prepared an update of Group gold Mineral Resources and Ore Reserves in accordance with the JORC Code (2004) as at 1 January 2012. The Ore Reserve statement was audited by independent technical consultants WAI, whilst the Mineral Resource statement was prepared by the Group internally.

A summary of the Group's gold Ore Reserves and Mineral Resources in accordance with the guidelines of the JORC Code (2004) is shown below:

Ore Reserves as of 1 January 2012
in accordance with JORC Code (2004)

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Total Ore Reserves	*Proven*	**40,808**	**1.29**	**1.69**
	Probable	**241,139**	**1.10**	**8.56**
	Total *(Proven + Probable)*	**281,947**	**1.13**	**10.25**
Non-refractory Ore Reserves	*Proven*	**17,911**	**0.86**	**0.78**
	Probable	**111,948**	**1.34**	**4.36**
	Total *(Proven + Probable)*	**129,859**	**1.23**	**5.13**
Refractory Ore Reserves	*Proven*	**22,896**	**1.31**	**0.91**
	Probable	**129,192**	**1.03**	**4.21**
	Total *(Proven + Probable)*	**152,088**	**1.05**	**5.12**

Note: Figures may not add up due to rounding.

As with the 2011 estimate, the above reserve statement was derived using a long-term gold price assumption of US$1,000/oz applied for all assets, with the exception of Albyn and Visokoe where a gold price of US$1,200/oz was used. The two different gold price assumptions are as at the date of the last overall feasibility assessment for each project. Operating cost projections at Albyn and Visokoe were re-evaluated in Q4 2011, whilst technical and economical parameters for the other assets remained unchanged from those at the time of the last annual review.

Mineral Resources as of 1 January 2012
in accordance with JORC Code (2004)

	Category	Tonnage (Kt)	Grade (g/t Au)	Contained metal (Moz)
Total Mineral Resources	*Measured*	**67,489**	**1.22**	**2.64**
	Indicated	**342,796**	**1.06**	**11.73**
	Total *(Measured + Indicated)*	**410,285**	**1.09**	**14.37**
	Inferred	**380,865**	**0.83**	**10.22**
Non-refractory Mineral Resources	*Measured*	**37,781**	**1.30**	**1.58**
	Indicated	**148,645**	**1.27**	**6.05**
	Total *(Measured + Indicated)*	**186,426**	**1.27**	**7.63**
	Inferred	**121,247**	**1.10**	**4.27**
Refractory Mineral Resources	*Measured*	**29,708**	**1.11**	**1.06**
	Indicated	**194,151**	**0.91**	**5.69**
	Total *(Measured + Indicated)*	**223,859**	**0.94**	**6.75**
	Inferred	**259,618**	**0.71**	**5.95**

Note: Mineral Resources are reported inclusive of Ore Reserves. Figures may not add up due to rounding.

2011 highlights

- 11% year-on-year increase in Ore Reserves to 10.2Moz
- 6% year-on-year increase in total Mineral Resources to 24.6Moz
- 12% increase in *Measured* and *Indicated* Mineral Resources
- 40% increase in *Proven* and *Probable* non-refractory material
- Increases achieved despite a depletion of 0.65Moz during 2011
- Increase in Ore Reserves attributable to successful exploration programme
- Grades for newly-discovered reserves are higher than Group average

Below is an asset-by-asset breakdown of Ore Reserves and Mineral Resources as of 1 January 2012, estimated in accordance with the JORC Code (2004).

Key mines and projects

Pokrovskiy (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	6,967	1.14	0.25
	Probable	21,131	0.72	0.49
	Total *(Proven + Probable)*	**28,098**	**0.82**	**0.74**
Refractory	*Proven*	–	–	–
	Probable	–	–	–
	Total *(Proven + Probable)*	**–**	**–**	**–**
Total	*Proven*	6,967	1.14	0.25
	Probable	21,131	0.72	0.49
	Total *(Proven + Probable)*	**28,098**	**0.82**	**0.74**

Pokrovskiy (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	10,642	1.02	0.35
	Indicated	33,502	0.74	0.80
	Total *(Measured + Indicated)*	**44,144**	**0.81**	**1.14**
	Inferred	26,217	0.66	0.56
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured + Indicated)*	**–**	**–**	**–**
	Inferred	–	–	–
Total	*Measured*	10,642	1.02	0.35
	Indicated	33,502	0.74	0.80
	Total *(Measured + Indicated)*	**44,144**	**0.81**	**1.14**
	Inferred	26,217	0.66	0.56

Go to page 48 for more on Pokrovskiy

Pioneer (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	4,281	1.63	0.22
	Probable	21,058	1.10	0.75
	Total *(Proven + Probable)*	25,339	1.19	0.97
Refractory	*Proven*	13,469	1.19	0.52
	Probable	28,717	1.02	0.94
	Total *(Proven + Probable)*	42,186	1.07	1.45
Total	*Proven*	17,751	1.30	0.74
	Probable	49,774	1.05	1.69
	Total *(Proven + Probable)*	67,525	1.12	2.42

Pioneer (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	3,649	1.90	0.22
	Indicated	12,528	1.51	0.61
	Total *(Measured + Indicated)*	16,177	1.60	0.83
	Inferred	5,194	0.83	0.14
Refractory	*Measured*	19,764	1.03	0.66
	Indicated	57,542	0.89	1.64
	Total *(Measured + Indicated)*	77,306	0.92	2.30
	Inferred	48,004	0.64	0.98
Total	*Measured*	23,413	1.17	0.88
	Indicated	70,069	1.00	2.25
	Total *(Measured + Indicated)*	93,482	1.04	3.13
	Inferred	53,198	0.66	1.12

Go to page 51 for more on Pioneer

Malomir (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	613	1.54	0.03
	Probable	4,962	1.49	0.24
	Total *(Proven + Probable)*	5,575	1.50	0.27
Refractory	*Proven*	9,427	1.31	0.40
	Probable	100,475	1.01	3.27
	Total *(Proven + Probable)*	109,902	1.04	3.67
Total	*Proven*	10,040	1.32	0.43
	Probable	105,437	1.04	3.51
	Total *(Proven + Probable)*	115,477	1.06	3.94

Malomir (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	668	1.46	0.03
	Indicated	9,296	1.21	0.36
	Total *(Measured + Indicated)*	9,964	1.23	0.39
	Inferred	19,881	0.83	0.53
Refractory	*Measured*	9,944	1.26	0.40
	Indicated	136,610	0.92	4.05
	Total *(Measured + Indicated)*	146,554	0.94	4.45
	Inferred	200,470	0.69	4.43
Total	*Measured*	10,612	1.28	0.44
	Indicated	145,906	0.94	4.41
	Total *(Measured + Indicated)*	156,518	0.96	4.85
	Inferred	220,351	0.70	4.96

Go to page 54 for more on Malomir

Albyn (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	1,059	1.89	0.06
	Probable	20,807	1.93	1.30
	Total *(Proven + Probable)*	21,866	1.94	1.36
Refractory	*Proven*	–	–	–
	Probable	–	–	–
	Total *(Proven + Probable)*	–	–	–
Total	*Proven*	1,059	1.89	0.06
	Probable	20,807	1.93	1.30
	Total *(Proven + Probable)*	21,866	1.94	1.36

Albyn (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	1,135	1.99	0.07
	Indicated	24,940	2.03	1.63
	Total *(Measured + Indicated)*	26,075	2.03	1.70
	Inferred	9,070	1.86	0.54
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured + Indicated)*	–	–	–
	Inferred	–	–	–
Total	*Measured*	1,135	1.99	0.07
	Indicated	24,940	2.03	1.63
	Total *(Measured + Indicated)*	26,075	2.03	1.70
	Inferred	9,070	1.86	0.54

Go to page 56 for more on Albyn

Krasnoyarsk region assets (Visokoe and Olenka)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	–	–	–
	Probable	**33,802**	**1.13**	**1.22**
	Total *(Proven + Probable)*	**33,802**	**1.13**	**1.22**
Refractory	*Proven*	–	–	–
	Probable	–	–	–
	Total *(Proven + Probable)*	–	–	–
Total	*Proven*	–	–	–
	Probable	**33,802**	**1.13**	**1.22**
	Total *(Proven + Probable)*	**33,802**	**1.13**	**1.22**

Krasnoyarsk region assets (Visokoe and Olenka)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	**5,620**	**1.37**	**0.25**
	Indicated	**38,500**	**1.18**	**1.46**
	Total *(Measured + Indicated)*	**44,120**	**1.21**	**1.71**
	Inferred	**24,200**	**1.00**	**0.78**
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured + Indicated)*	–	–	–
	Inferred	**11,144**	**1.51**	**0.54**
Total	*Measured*	**5,620**	**1.37**	**0.25**
	Indicated	**38,500**	**1.18**	**1.46**
	Total *(Measured + Indicated)*	**44,120**	**1.21**	**1.71**
	Inferred	**35,344**	**1.16**	**1.32**

Go to page 59 for more on the Krasnoyarsk projects

Other licence areas

Yamal region assets (Petropavlovskoye and Novogodnee Monto)

Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	**2,962**	**1.12**	**0.11**
	Probable	**7,993**	**1.03**	**0.26**
	Total *(Proven + Probable)*	**10,955**	**1.05**	**0.37**
Refractory	*Proven*	–	–	–
	Probable	–	–	–
	Total *(Proven + Probable)*	–	–	–
Total	*Proven*	**2,962**	**1.12**	**0.11**
	Probable	**7,993**	**1.03**	**0.26**
	Total *(Proven + Probable)*	**10,955**	**1.05**	**0.37**

Yamal region assets (Petropavlovskoye and Novogodnee Monto)

Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	**3,959**	**1.03**	**0.13**
	Indicated	**12,623**	**0.97**	**0.40**
	Total *(Measured + Indicated)*	**16,582**	**0.99**	**0.53**
	Inferred	**16,704**	**1.00**	**0.54**
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured + Indicated)*	–	–	–
	Inferred	–	–	–
Total	*Measured*	**3,959**	**1.03**	**0.13**
	Indicated	**12,623**	**0.97**	**0.40**
	Total *(Measured + Indicated)*	**16,582**	**0.99**	**0.53**
	Inferred	**16,704**	**1.00**	**0.54**

Go to page 58 for more on the Yamal projects

Tokur (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	**2,028**	**1.47**	**0.10**
	Probable	**2,195**	**1.44**	**0.10**
	Total *(Proven + Probable)*	**4,223**	**1.45**	**0.20**
Refractory	*Proven*	**–**	**–**	**–**
	Probable	**–**	**–**	**–**
	Total *(Proven + Probable)*	**–**	**–**	**–**
Total	*Proven*	**2,028**	**1.47**	**0.10**
	Probable	**2,195**	**1.44**	**0.10**
	Total *(Proven + Probable)*	**4,223**	**1.45**	**0.20**

Tokur (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	**11,952**	**1.30**	**0.50**
	Indicated	**16,096**	**1.06**	**0.55**
	Total *(Measured + Indicated)*	**28,048**	**1.16**	**1.05**
	Inferred	**10,706**	**1.09**	**0.38**
Refractory	*Measured*	**–**	**–**	**–**
	Indicated	**–**	**–**	**–**
	Total *(Measured + Indicated)*	**–**	**–**	**–**
	Inferred	**–**	**–**	**–**
Total	*Measured*	**11,952**	**1.30**	**0.50**
	Indicated	**16,096**	**1.06**	**0.55**
	Total *(Measured + Indicated)*	**28,048**	**1.16**	**1.05**
	Inferred	**10,706**	**1.09**	**0.38**

Go to page 59 for more on Tokur

Verkhne Aliinskoye (Chita)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	**156**	**5.26**	**0.03**
	Indicated	**1,160**	**6.50**	**0.24**
	Total *(Measured + Indicated)*	**1,316**	**6.35**	**0.27**
	Inferred	**2,375**	**6.19**	**0.47**
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured + Indicated)*	–	–	–
	Inferred	–	–	–
Total	*Measured*	**156**	**5.26**	**0.03**
	Indicated	**1,160**	**6.50**	**0.24**
	Total *(Measured + Indicated)*	**1,316**	**6.35**	**0.27**
	Inferred	**2,375**	**6.19**	**0.47**

Taldan (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured + Indicated)*	–	–	–
	Inferred	**6,900**	**1.52**	**0.34**
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured + Indicated)*	–	–	–
	Inferred	–	–	–
Total	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured + Indicated)*	–	–	–
	Inferred	**6,900**	**1.52**	**0.34**

Notes on Mineral Resource estimates:
(1) Mineral Resources include Ore Reserves;
(2) The cut-off grade varies from 0.3 to 2.0g/t depending on the type of mineralisation and the proposed mining and processing method.

Notes on Ore Reserve estimates:
(1) All Group Ore Reserves are for open-pit extraction and are reported within economical pit shells;
(2) Reserve cut-off grade for the reporting varies from 0.3 to 0.55g/t depending on the ore processing method;
(3) New additions to the Group's JORC-compliant Ore Reserve estimates are attributable to successful exploration at Pioneer, Albyn, Malomir and Pokrovskiy (at the Pokrovka-2 and Zheltunak deposits);
(4) Figures may not add up due to rounding.

Go to page 58 for more on Chita region projects
Go to page 64 for more on Taldan

Alluvial operations

In addition to the Ore Reserves and Mineral Resources estimated in accordance with JORC Code (2004), the Group also holds significant alluvial gold reserves and resources classified following the Russian Classification System as at 1 January 2012. A summary of the alluvial resources and reserves is presented below:

Alluvial reserves as of 1 January 2012

in accordance with the Russian Classification System

	Category	Volume (000m³)	Grade (g/m³ Au)	Contained metal (Moz)
Alluvial reserves	B	1,443	**0.23**	**0.01**
	C_1	45,017	**0.36**	**0.52**
	Sub-total (B+C_1)	46,460	**0.35**	**0.53**
	C_2	3,277	**0.32**	**0.03**
	Total (B+C_1+C_2)	49,737	**0.35**	**0.56**

Alluvial resources as of 1 January 2012

in accordance with the Russian Classification System

	Category	Volume (000m³)	Grade (g/m³ Au)	Contained metal (Moz)
Alluvial resources	B	5,798	**0.11**	**0.02**
	C_1	71,645	**0.32**	**0.74**
	Sub-total (B+C_1)	77,443	**0.31**	**0.76**
	C_2	9,299	**0.88**	**0.26**
	Total (B+C_1+C_2)	86,742	**0.37**	**1.02**

Notes:

(1) Alluvial resources are reported inclusive of alluvial Ore Reserves;

(2) Ore Reserves include only on-balance material (defined as per the Russian Classification System) for open-cut and dredge extraction. Resources include the Ore Reserves, off-balance material (defined as per the Russian Classification System) for open-pit and dredge extraction as well as on-balance and off-balance material considered for potential underground mining;

(3) As per the Russian Classification System, Ore Reserves are reported at in-situ grade and tonnage, however it has been demonstrated that the material remains economically viable after application of the reasonably assumed or estimated modifying factors such as mining dilution and recovery.

Go to page 53 for more on alluvial operations

Report of the Risk Committee

"The Company continues to pursue its growth strategy through exploration and new technologies and the Committee principally focuses on those risks that could impact on the Group's business and on the success of this strategy."
Lord Guthrie
Chairman of the Risk Committee

Dear shareholder,

As Chairman of the Risk Committee (the 'Committee'), I would like to give you an overview of the scope and activity of the Committee and report on its work over the past year. In addition, this report details the principal risks relating to the Group and the actions undertaken to mitigate and manage these risks.

During 2011, Dr Graham Birch, Sir Roderic Lyne, Mr Martin Smith and Mr Peter Hill-Wood were my colleagues on the Committee. Peter Hill-Wood stepped down from the Committee on 19 May 2011 and I would like to extend my thanks to Peter for his valuable contribution to the Committee. Membership of the Committee is reviewed at regular intervals by me as Chairman, the Nomination Committee and the Company Chairman who recommend to the Board any new appointments to the Risk Committee. The Board considers that there are significant benefits in having Non-Executive Directors provide oversight of risk issues and to challenge the risk management process and accordingly the Committee is comprised of a majority of independent Non-Executive Directors with two members comprising a quorum.

Mr Martin Smith, the Deputy Chief Executive and the Group's Technical Director, was appointed to the Committee on 9 February 2011. Martin has made a significant contribution to the Committee since his appointment due to his detailed knowledge and understanding of the operational and health and safety issues relating to the Group. Based in Russia and as an Executive Director and a member of the Executive Committee, Martin is involved in operational issues on a daily basis and has a clear understanding of the Group's operational risks. Through active dialogue with his Executive Committee colleagues he clearly understands the principal risks of the Group and can act as a conduit between the Committee and the Executive Committee.

In addition, I was pleased to welcome Dr David Humphreys as a member of the Committee with effect from 1 January 2012. As part of his induction programme, David attended two meetings of the Committee by invitation in 2011 following his appointment as a Director of the Company in August 2011.

We held six meetings during the year. These were also attended (by invitation for all or part of any meeting) by the Company's Chairman, the Chief Executive Officer, the Chief Financial Officer, the Strategic Director, the Group Head of Legal Affairs and the Company Secretary.

Members:	Date of appointment:	Attendance at meetings during 2011:
Lord Guthrie	21 January 2008	6/6
Graham Birch	12 February 2010	6/6
Sir Roderic Lyne	22 April 2009	6/6
Martin Smith	9 February 2011	6/6
Peter Hill-Wood*	22 April 2009	1/3
David Humphreys**	1 January 2012	2/2

* *Retired on 19 May 2011.*

** *Appointed as a Director on 24 August 2011. David Humphreys attended two meetings during 2011 by invitation and as part of his induction to the Company.*

Summary of activities undertaken by the Committee during the year and focus for 2012:
The Committee recognises that the Company's risk management structure is a "live" process which is continually evolving. Accordingly, we seek external advice as we think appropriate to ensure that our risk management process continues to develop. During the year the Committee received a presentation from Deloitte, the Company's external auditor, on effective risk management in order to assist the Committee in further developing an integrated risk and governance framework for the Group. Deloitte also made a presentation to the Executive Committee meeting on risk issues, focusing principally on the implications of the Bribery Act 2010 for the Group which came into force on 1 July 2011.
In addition, whilst recognising the progress that the Company had made in its risk management structure during 2010, Deloitte made recommendations to further improve the Company's risk management processes in its Management Letter prepared following the 2010 year-end audit. The Committee considered these recommendations together with the Executive Directors and actions have been taken to comply with the recommendations.

Review and assessment of risks during the year
As detailed in the Audit Committee Report on pages 121 to 124, the Board has ultimate responsibility for setting the Group's risk appetite and the executive team has responsibility for on-going risk review and management. Whilst on-going review of risk management is delegated to the Executive Committee, the Board considers it appropriate to retain oversight of risks and the effectiveness of the risk management framework. This is achieved in a number of ways. The Board has delegated authority to this Committee to make recommendations to the Board on the Group's risk appetite. Accordingly, the Committee is responsible for reviewing the identification, evaluation and management of key risks, as well as for assessing the effectiveness of related controls, and monitoring the internal control systems. In addition, the Committee is responsible for reinforcing risk management principles throughout the Group. The Audit Committee retains responsibility for reviewing financial risks and during the year the Committee received comprehensive information on these risks and their review.

Over the last few years the Group has grown substantially into a complex multi-mine operation. The Company continues to pursue its growth strategy through exploration and new technologies and the Committee principally focuses on those risks that could impact on the Group's business and on the success of this strategy. Risks that could impact the business are considered in the following broad categories:

- Operational;
- Financial;
- Health, Safety and Environmental ("HSE");
- Legal and regulatory;
- Human resources; and
- Investor relations and external communications.

Responsibility for each category is delegated to a "risk owner" within the Executive Committee. Consideration of principal risks is a standing agenda item for Executive Committee meetings with particular focus on new and emerging risks. Each risk owner is responsible for identifying risks in their risk area and the most significant risks are recorded in risk registers. The likelihood of occurrence and potential impact to the Group is assessed and mitigating controls which seek to remove or minimise the likelihood and impact of the risks before they occur are implemented. Risks are then re-assessed once appropriate mitigation is in place, although some risks by their nature cannot be mitigated by the Company.

At each of its meetings, the Committee reviews each risk area and the corresponding risk register and discusses any issues of concern with the relevant "risk owners" who are periodically invited to attend Committee meetings. The Committee probes and tests the risk identification process and the efficacy of the risk management strategy with the various "risk owners". The Committee also has responsibility for identifying the most significant Group-wide risks from the individual risk registers.

The Group's categorisation of risks and risk owners

Principal risks relating to the Group
The most significant risks that may have an adverse impact on the Group's reputation, its ability to meet its strategic objectives and to deliver shareholder value are set out below. Summarised alongside each risk is a description of its potential impact on the Group. Measures in place to manage or mitigate against each specific risk, where this is within the Group's control, are also described. The "additional information" column provides a cross-reference to further information, specifically regarding the processes and procedures that are undertaken to mitigate these risks in order that the Group can successfully deliver on its strategy.

Operational
Factors which impact output such as inadequate or failed internal processes, failure of suppliers to deliver equipment or services and other external events

Deputy Chief Executive and Technical Director

Financial
Financial risks include market, credit and liquidity risks, the ability to raise finance or meet loan covenants or foreign exchange exposure and other related risks

Chief Financial Officer

Health, Safety and Environmental ("HSE")
Workplace hazards that could result in liability for the Group or have an adverse impact on output

Deputy Chief Executive and Technical Director

Legal and regulatory
Risks that create potential for loss arising from uncertainty due to legal actions or uncertainty in the application of laws or regulations

Group Head of Legal Affairs

Human resources
Risks associated with the recruitment and on-going management of people

Chief Executive Officer

Investor relations and external communications
Includes risks such as poor management of market expectations and false investor perception

Group Head of External Communications

The Group's principal risks are set out below. These should not be regarded as a complete or comprehensive list of all potential risks and uncertainties that the Group may face which could have an adverse impact on its performance. Additional risks may also exist that are currently unknown to the Group and certain risks which are currently believed to be immaterial could turn out to be material and significantly affect the Group's business and financial results.

Operational risks

Risk	Description and potential impact	Mitigation	Additional information
Failure to complete various capital investment projects including the execution of the commissioning of the Pressure Oxidation (POX) hub.	The Group's strategy relies on the successful completion of various capital investment projects including the successful commissioning of POX. Failure to deliver the Group's active capital investment programme including the successful execution of POX and the move to refractory ore and/or to adhere to agreed budgets or timeframes may have an adverse impact on the Group's growth plans and its future profitability.	The progress in meeting capital investment timeframes and budgets is monitored regularly and a formal process exists by which the Executive Committee and the Board can monitor the progress of material capital projects against the original budgets and timeframes. The Technical and Strategic Committees both have the responsibility for formulating annual and long-term budgets and forecasts including capital investment budgets and monitoring and reporting on performance against these. POX is being delivered together with an excellent team of specialists. The Company has dedicated significant time and resource to ensuring that the commissioning of the POX hub will be successful and on schedule. Over the past five years, the Group has conducted extensive research into the POX technology and the processing parameters in its R&D centres and at the Giproruda research facility, in which IRC is the majority shareholder. This work has been supplemented by bulk sample testing at its pilot plant in Blagoveschensk.	Strategic Priority page 11 POX Hub pages 44 to 47
Delay in supply of, or failure of equipment/services.	The Group relies on the supply and availability of various services and equipment in order to successfully run its operations. For example, timely delivery of mining equipment and jaw crushers and their availability are essential to the Group's ability to extract ore from the Group's assets to crush the mined ore prior to production. Delay in the delivery or the failure of mining equipment could significantly delay production and impact the Group's profitability.	Contingency plans are in place to address disruption to services. These were reviewed and strengthened in response to the challenges faced by failure of suppliers to deliver essential equipment on schedule during 2010. The Group has high operational standards and maintenance of equipment is undertaken on a regular basis. Equipment is inspected at the beginning and end of every shift and sufficient stocks of spare parts are available. Equipment is ordered with adequate lead time in order to prevent delays in the delivery of equipment.	

Operational risks (continued)

Risk	Description and potential impact	Mitigation	Additional information
Factors which impact output such as weather, equipment failures or lack of supplies.	The Group's assets are located in the Russian Far East which is an area that can be subject to severe climatic conditions. Severe weather conditions such as cold temperatures in winter could have an adverse impact on operations, including the delivery of supplies, equipment and fuel, and exploration and extraction levels may fall as a result of such climatic factors.	Heating plants at operational bases are regularly maintained and operational equipment is fitted with cold weather options, which could assist in ensuring that equipment does not fail as a result of adverse weather conditions. The Group aims to stock several months of essential supplies at each site.	

Financial risks

Risk	Description and potential impact	Mitigation	Additional information
The Group's results of operations may be affected by changes in gold and/or iron ore prices.	A sustained downward movement in the market price for gold or iron ore may negatively affect the Group's profitability and cash flow. The market price of gold is volatile and is affected by numerous factors which are beyond the Company's control. These factors include world production levels, global and regional economic and political events, international economic trends, inflation, currency exchange fluctuations and the political and economic conditions of major gold-producing countries. Additionally the purchase and sale of gold by central banks or other large holders or dealers may also have an impact on the market price.	The Group does not typically implement hedging or price management strategies, although the Executive Committee monitors the position on a regular basis and consults with the Board as appropriate. The Group aims to minimise overhead costs on an on-going basis and to operate and maintain low-cost and efficient operations in order to optimise the Group's returns. The Group's business model is to actively maintain the lowest possible cash cost per gold ounce. During the year the Company appointed consultants to assist it in identifying operational efficiencies which have now been successfully implemented.	Gold: Our Market Position and Competitive Environment on pages 24 to 27
Currency fluctuations may affect the Group.	The Company reports its results in US Dollars, which is the currency in which gold is principally traded and therefore in which most of the Group's revenue is generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. In addition, a portion of the Group corporate overhead is denominated in Sterling. The Company's financial condition and results of operations could be adversely affected by changes in the exchange rates between these currencies. In addition, if inflation in Russia were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, the Group's business, results of operations and financial condition may be adversely affected.	The Group has adopted a policy of holding a minimum of cash and monetary assets or liabilities in non-US Dollar currencies and operates an internal funding structure which seeks to minimise foreign exchange exposure.	Chief Financial Officer's Statement on pages 34 to 43

Financial risks (continued)

Risk	Description and potential impact	Mitigation	Additional information
Lack of funding and liquidity to finance its strategy to grow through greenfield and brownfield exploration and through the employment of advanced technologies.	The Group's future production growth is dependent on its success in funding its existing operations and developing additional reserves. The Group requires funds to invest in and develop its exploration projects as well as to extend the life and capacity of its existing mining operations. If the Group is unable to obtain adequate funding, this may mean that the Group is unable to develop and/or meet its operational commitments.	The Group's long-term strategic funding needs are detailed in the Group's five year strategic plan which was approved by the Board in November 2011. The five year strategic plan is periodically reviewed and monitored by the Executive Committee and the Board. A detailed annual budget is approved by the Board and monthly re-forecasts monitored. During the year, the Group took a number of actions to reduce the impact of this risk with increased access to funding through the execution of new banking facilities. In addition, IRC has a loan facility with ICBC amounting to US$340 million for the development of the K&S iron ore concentrate project.	Strategic Priority on page 11 Chief Financial Officer's Statement on pages 34 to 43
Risk that the Company breaches one or more of the restrictive covenants as set out in various loan agreements.	In the event of a breach of one or more of the restrictive covenants in one of the Company's loan agreements with its debt providers, loans may become payable immediately and the Company may not be able to access funds to repay the loans in such circumstances.	A detailed annual budget and five year strategic plan have been developed and approved by the Board. These assist the executive management and the Board to closely monitor the position together with (i) monthly forecast updates including sensitivity analysis around covenants to assist careful management of cash flows, and (ii) development of a cost reduction plan to offset the effect of a decline in the gold price or adverse currency movements as appropriate. In addition, strong relationships are maintained between the Company and existing and potential equity and debt providers.	Chief Financial Officer's Statement pages 34 to 43

Financial risks (continued)

Risk	Description and potential impact	Mitigation	Additional information
Funding may be demanded from Petropavlovsk under a guarantee in favour of ICBC.	Petropavlovsk has provided a guarantee against a US$340 million loan facility provided to IRC by ICBC. In the event that IRC were to default on their loan, Petropavlovsk may be liable to repayment of the outstanding loan under the terms of the guarantee.	The Group ensures constant monitoring of IRC's performance through (1) Petropavlovsk representation on IRC Board, (2) IRC presentations to Petropavlovsk Board, (3) attendance of IRC Chairman and CEO at Petropavlovsk Executive Committee meetings, and (4) regular communication between the Group CFO and the IRC CFO.	Chief Financial Officer's Statement pages 41 and 42 IRC page 61
Exploration for reserves can be costly and uncertain.	Exploration activities are speculative and can be unproductive. These activities can require substantial expenditure to establish reserves through drilling and metallurgical and other testing, to determine appropriate recovery processes, to extract gold from the ore and to construct or expand mining and processing facilities. Once deposits are discovered, it can take several years to determine whether reserves exist. During this time, the economic viability of a project may change. As a result of these uncertainties, the exploration programmes the Group is engaged in may not result in the expansion or replacement of the current production with new reserves or operations.	The Group has a large, diverse portfolio of assets in highly prospective gold mining regions of Russia and carefully plans its exploration expenditure. The Group's exploration budget is determined for each asset at the start of each financial year depending on confidence in any previously received results. The Group is using modern geophysical and geochemical exploration and surveying techniques. The Group employs a team of qualified geologists with considerable regional expertise and experience. The Group's geological team is supported by a network of state-accredited laboratories capable of performing a range of assay work to high standards.	Our Strategy in Focus: Exploration on pages 12 to15 Exploration Report on pages 62 to 65

Health, Safety and Environmental risks

Risk	Description and potential impact	Mitigation	Additional information
Failures in the Group's health and safety processes and/or breach of Occupational, Health and Safety legislation.	The Group's employees are one of its most valuable assets. The Group recognises that it has an obligation to protect the health of its employees and that they have the right to operate in a safe working environment. Some of the Group's operations are carried out under potentially hazardous conditions. Group employees may become exposed to health and safety risks which may lead to the occurrence of work-related accidents and harm to the Group's employees. These could also result in production delays, reputational damage and financial loss.	Health and safety management systems are in place across the Group to ensure that the operations are managed in accordance with the relevant health and safety regulations and requirements. The Group has an established health and safety training programme under which its employees undergo initial training on commencement of employment and take part in refresher training on an annual basis. The Group implemented a range of additional measures during the year as a result of three fatalities in 2010 in order to minimise the risk of accidents and improve accident response, including additional and enhanced technical measures at all sites and the provision of further occupational, health and safety training. The Group operates a prompt incident reporting system to the Executive Committee and the Board. Board level oversight of health and safety issues occurs through the work of the Health, Safety and Environmental Committee.	Focus on health and safety on page 22 Sustainability Report 2011
	During 2011, amendments to the Russian Labour Code changed the previous "principles" based operational health and safety measures approach for enterprises within the Russian Federation to a mandatory one – a breach of which could result in fines, penalties and reputational damage.	Internal policies have been updated to combine state legislation with the Group's internal policies to ensure compliance with the new legislation.	
The Group's operations require the use of hazardous substances including cyanide and other reagents.	Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community.	Cyanide and other dangerous substances are kept in secure storages with limited access only to qualified personnel, with access closely monitored by security staff.	Focus on the environment on page 23 Sustainability Report 2011

Legal and regulatory risks

Risk	Description and potential impact	Mitigation	Additional information
The Group requires various licences and permits in order to operate.	The Group's principal activity is the mining of precious and non-precious metals which require it to hold licences which permit it to explore and mine in particular areas in Russia. These licences are regulated by Russian governmental agencies and if a material licence was challenged or terminated, this would have a material adverse impact on the Group. In addition, various government regulations require the Group to obtain permits to implement new projects or to renew existing permits. Non-renewal of a permit may cause the Group to discontinue the operations requiring the permit and the imposition of additional conditions may cause the Group to incur additional compliance costs.	There are established processes in place to monitor the required and existing licences and permits on an on-going basis and processes are also in place to ensure compliance with the requirements of the licences and permits. Schedules are presented to the Executive Committee on a regular basis detailing compliance with the Group's licences and permits.	Our Assets on pages 48 to 59. Exploration Report on pages 62 to 65
The Group's mineral reserves and resources are estimates based on a range of assumptions.	The Group's mineral reserves and resources are estimates based on a range of assumptions, including the results of exploratory drilling and an on-going sampling of the ore bodies; past experience with mining properties; and the experience of the expert engaged to carry out the reserve estimates. Other uncertainties inherent in estimating reserves include subjective judgements and determinations based on available geological, technical, contractual and economic information. Some assumptions may be valid at the time of estimation but may change significantly when new information becomes available. Changes to any of these assumptions, on which the Group's reserve and resource estimates are based, could lead to the reported reserves being restated. Changes in the reserves and resources could adversely impact the economic life of deposits and the profitability of the Group's operations.	The first stage of assurance of the accuracy of reserves and resources is by detailed analysis of geological samples in the Group's laboratories. These laboratories are licensed by the Russian authorities and use multiple QA/QC procedures. The QA/QC procedures include the use of "standards", "blanks" and "duplicates", as well as cross checking a percentage of all samples analysed, in an independent laboratory in Ulan Ude, Republic of Buryatia, Russia. The resource and reserve estimates are prepared in accordance with the guidelines of the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia ("JORC Code (2004)"). The Group engages the services of independent experts, Wardell Armstrong International, to review the Group's reserves and resources calculations for operating mines and development projects on a regular basis to provide additional external assurance. In addition, the Company publishes its reserves and resources calculations based on gold prices which are lower than the current market price of gold.	Strategic priority on page 11 Our Strategy in Focus: Exploration on pages 12 to 15 Gold Reserves and Resources on pages 66 to 75

Legal and regulatory risks (continued)

Risk	Description and potential impact	Mitigation	Additional information
The Group is subject to risks associated with operating in Russia.	Actions by governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets could have an adverse impact on the Group's business or its future performance. Most of the Group's assets and operations are based in Russia. Russian foreign investment legislation imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including in respect of gold reserves in excess of a specified amount or any occurrences of platinum group metals. None of the Group's assets are currently included on the list of subsoil blocks of federal significance, maintained by the Russian Government ("Strategic Assets"), and on the basis of the Russian foreign investment law and the related legislation now in force, it is not currently expected that any of the Group's assets will be classified as Strategic Assets. However, if the legislative framework changes in the future, so that some assets of the Group become Strategic Assets, the Group entities holding licences in respect of such deposits may, themselves, become strategic. In this case, such Group entities' rights in relation to such assets may be limited or even terminated (with the compensation of incurred expenses in the course of the exploration of such deposits) under the procedure set out by the Russian Government. If the relevant Group entities are allowed to continue exploring such assets, direct or indirect acquisitions of interests in such entities may require clearance under the Russian foreign investment law. Fluctuations in the global economy may adversely affect Russia's economy. Russia's economy has recently become increasingly dependent on global economic trends and is more vulnerable to market downturns and economic slowdowns elsewhere in the world, as well as to reductions and fluctuations in the prices of hydrocarbons and minerals.	To mitigate the Russian economic and banking risk, the Group strives to use the banking services of several financial institutions and not keep disproportionately large sums on deposit with a single bank. The Group seeks to mitigate the political and legal risk by constant monitoring of the proposed and newly adopted legislation to adapt to the changing regulatory environment in the countries in which it operates and specifically in Russia. It also relies on the advice of external counsel in relation to the interpretation and implementation within the Group of new legislation. The Group closely monitors its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government.	

Human resources risks

Risk	Description and potential impact	Mitigation	Additional information
The Group depends on attracting and retaining key personnel.	The Group's success and growth is closely aligned to the experience, abilities and contributions of certain of its key senior managers, and in particular the Group's Chairman and the Group's Chief Executive. The Group's growth and profitability may be adversely impacted by the loss of the services of these key senior managers or its inability to attract additional highly-qualified and experienced people.	Succession planning is an important item on the Board's agenda. The appointment of three new Executive Directors in January 2011 and further changes following the resignation of Dr Maslovskiy, the Company's long-standing Chief Executive Officer, on 20 December 2011 form part of the Company's on-going long-term succession planning. Regular reviews of reward structures and incentive plans are carried out in order to attract, retain and incentivise key employees.	Directors' Remuneration Report on pages 108 to 120 Corporate Governance Report on pages 99 to 107
Lack of skilled labour.	The Group seeks its skilled labour within the geographies in which it operates, avoiding the need for higher expatriate labour costs. As the scale of the Group's operations increases, it may experience a shortage of skilled labour which may make it difficult to execute its business plans and/or lead to operational inefficiencies.	The Group has a long standing programme of investing in education in the regions in which it operates to ensure a constant supply of highly qualified specialists for the Group's operations. In response to the challenges of moving from a small-scale mining operation to a more complex multi-mine operation, additional investment continues to be made in training (including expansion of the Pokrovskiy Mining College) and recruitment to improve operational efficiencies.	Focus on community and workforce engagement on page 23 Focus on education on page 22 Sustainability Report 2011

Overview
As a result of its work undertaken during the year, the Risk Committee has concluded that it has acted in accordance with its terms of reference. As Chairman of the Risk Committee I will be available at this year's Annual General Meeting to answer any questions about the work of the Committee.

Approval
This report was approved by the Board and signed on its behalf by:

Lord Guthrie
Chairman of the Risk Committee
27 March 2012

Board of Directors and Honorary President

01 **Peter Hambro**
Chairman

Mr Hambro is a founding shareholder of the Company and has been Chairman of the Group since its formation in 1994. He is also non-executive chairman and a member of the boards of several family companies. Mr Hambro started his career with his family bank and became Joint Managing Director of Smith St. Aubyn Holdings Limited before joining the gold world at the Mocatta Group as Deputy Managing Director of Mocatta & Goldsmid Limited. Mr Hambro is also Chairman of the Nomination Committee.

02 **Sergey Ermolenko**
Chief Executive Officer

Mr Ermolenko was appointed Chief Executive Officer in December 2011, following the resignation of Dr Maslovskiy in December 2011. One of the five founding members of the Company, Mr Ermolenko has held top managerial positions with the Group since its inception in 1994 and has been instrumental in the expansion of the Group into a multi-mine operator, overseeing the commissioning of Pokrovskiy, Pioneer, Malomir and Albyn. Mr Ermolenko has over 40 years' experience of operating mines in the Russian Far East.

03 **Martin Smith**
Deputy Chief Executive

Mr Smith was appointed Deputy Chief Executive in December 2011, in addition to his role as Technical Director. He joined the Group's management team in 1994 on secondment from Kier International. In 2006, he joined Aricom plc as Technical Director and, following Aricom's merger with the Group in 2009, he became Group Head of Technical Services, being appointed to the Board in January 2011. With over 30 years' experience in the global natural resources industry he commenced his career as a mining engineer at Anglo American Corporation, later leading projects for Kier International, Costain Mining and Shell International. He is Chairman of the Group's Technical Committee and a member of the HSE and Risk Committees.

04 **Brian Egan**
Chief Financial Officer

Mr Egan is Chief Financial Officer of the Company having previously been Chief Financial Officer of Aricom plc, which he joined in July 2007. Prior to joining Aricom, he was Chief Financial Officer of Gloria-Jeans Corporation, a leading Russian apparel manufacturer and retailer. He has more than 16 years' experience in senior financial roles with Associated British Foods plc, Georgia-Pacific Ireland Limited and Coca-Cola HBC. He is a member of the Institute of Chartered Accountants in Ireland.

05 **Andrey Maruta**
Finance Director, Russia

Mr Maruta qualified as a Chartered Certified Accountant at Moore Stephens in 2001, became a Fellow member in 2006 and joined the Group in 2003 as Group Chief Accountant. He was appointed Deputy Finance Director in 2005 and Finance Director in 2006. Following the merger with Aricom plc in 2009 he was again appointed Deputy Finance Director. He was appointed to the Board of the Company and as Finance Director – Russia in January 2011.

06 **Dr Alfiya (Alya) Samokhvalova**
Strategic Director

Dr Samokhvalova was appointed to the Board as Strategic Director in January 2011. In addition to this role, she is Group Head of External Communications, a position she has held since 2002. Dr Samokhvalova is also a non-executive director of the Russo-British Chamber of Commerce. Dr Samokhvalova holds a Masters in Investment Management from CASS Business School, London, and a PhD in Economics from the Moscow International Higher Business School. She is Chairman of the Strategic Committee and a member of the Group's HSE Committee.

07 **Dr Graham Birch**
Senior Non-Executive Director

Dr Birch was appointed to the Board in February 2010 and as Senior Non-Executive Director in January 2011. He is also a non-executive director of Hochschild Mining plc and of ETF Securities, an asset management company, and vice-chairman of Rothamsted Research. He was formerly a director of BlackRock Commodities Investment Trust Plc and manager of BlackRock's World Mining Trust and Gold & General Unit Trust. Prior to joining BlackRock, Dr Birch worked at Mercury Asset Management, OrdMinnett/Fleming OrdMinnett and Kleinwort Benson Securities. He holds a PhD in Mining Geology from Imperial College, London. Dr Birch is a member of the Company's Audit, Nomination and Risk Committees.

08 **Lord Guthrie**
Non-Executive Director

General the Lord Guthrie of Craigiebank GCB LVO OBE DL was appointed to the Board in 2008. He is also a director of Colt Defense LLC and a non-executive director of Gulf Keystone Petroleum Ltd. Lord Guthrie is an independent member of the House of Lords, a board member of the Moscow School of Policy Studies, a Visiting Professor and Honorary Fellow of King's College London, Colonel of the Life Guards and Gold Stick to The Queen. He was formerly a director of NM Rothschild & Sons Limited, Chief of the Defence Staff and the Principal Military Adviser to two Prime Ministers and three Secretaries of State for Defence. Lord Guthrie is Chairman of the Risk Committee and a member of the HSE and Remuneration Committees.

09 **Sir Malcolm Field**
Non-Executive Director

Sir Malcolm Field was previously a non-executive director of Aricom plc, a position he had held since 2003, and was appointed to the Board in 2009 upon the merger with Aricom plc. In addition to his role with the Group, Sir Malcolm is currently the senior independent director of Hochschild Mining plc. Sir Malcolm served as Chairman of the Civil Aviation Authority and Chairman of Tube Lines Limited, one of the London Underground consortia. He was formerly Chief Executive Officer of WH Smith Plc. Sir Malcolm has held non-executive directorships with numerous companies, including Scottish & Newcastle plc and Evolution Group Plc. He is Chairman of the Audit and Remuneration Committees and a member of the Nomination Committee.

10 **Sir Roderic Lyne**
Non-Executive Director

Sir Roderic Lyne was previously a non-executive director of Aricom plc, a position he had held since 2006, and was appointed to the Board in 2009 upon the merger with Aricom plc. He is vice-chairman of the Council of the Royal Institute of International Affairs (Chatham House) and Chairman of the Board of Governors of Kingston University and a member of the Committee of the Iraq Inquiry. Sir Roderic served as British Ambassador to Russia from January 2000 until August 2004. He is Chairman of the Company's HSE Committee and a member of the Remuneration and Risk Committees.

11 **Charles McVeigh III**
Non-Executive Director

Mr McVeigh III joined the Group as a Non-Executive Director in June 2009. He is currently chairman of Citigroup's Corporate and Investment Banking – Global Wealth Management Partnership. He also serves on the boards of EFG-Hermes and Savills plc and is a trustee of the Landmark Trust. Formerly he was co-chairman of Citigroup's European Investment Bank and served on the boards of Witan Investment Company plc, Clearstream, the London Stock Exchange, LIFFE and British American Business Inc. He was also appointed by the Bank of England to serve on the City Capital Markets Committee and the Legal Risk Review Committee. Mr McVeigh is a member of the Audit and Nomination Committees.

12 **Dr David Humphreys**
Non-Executive Director

Dr Humphreys was appointed to the Board in August 2011. Dr Humphreys has a broad range of experience in the global mining industry through his work for mining companies and as a consultant and academic. He was chief economist at Norilsk Nickel, Russia's largest mining company, from 2004 to 2008. He was previously with Rio Tinto for 18 years, the last eight of these as the company's chief economist. Prior to joining Rio Tinto, Dr Humphreys worked for nine years in the UK government service, for six of these as an advisor on minerals policy. He was appointed as a member of the Risk, HSE and Remuneration Committees on 1 January 2012.

13 **Dr Pavel Maslovskiy**
Honorary President

Dr Maslovskiy is a founding shareholder of the Company and held directorships within the Group, including the position of Chief Executive Officer, from the Group's inception in 1994 until December 2011, when he relinquished all remunerated positions following his appointment as a Senator and Member of the Federation Council of Russia. Following his resignation as Chief Executive Officer, the Company's Board of Directors conferred on him the title of Honorary President. In this capacity Dr Maslovskiy continues to advise the Company. Similarly, Dr Maslovskiy holds an advisory role as Emeritus Director at IRC Limited. Prior to embarking on his business career, Dr Maslovskiy was an Associate Professor of Metallurgy at the Moscow Aircraft Technology Institute.

Our Management Expertise

01 **Vladimir Dementeev**
General Manager, Irgiredmet

A prominent scientist in precious metals metallurgy, Mr Dementeev graduated from the Irkutsk Technical University. He began his career at Irgiredmet as a junior research associate rising through the ranks before being appointed General Director of Irgiredmet in 1993. Mr Dementeev has written four books and more than 70 research articles and is responsible for 34 inventions.

01


02 **Alexander Mutiev**
Chief Engineer of MC Petropavlovsk

Mr Mutiev is a qualified chemical engineer. From 1973 to 1995 he worked in Uzbekistan at an institute where he specialised in the project planning of precious metals production. In 1995 he moved to Russia where he worked as a production engineer at a gold mining company in the Krasnoyarsk region. He joined Pokrovskiy Rudnik in 2002 as Director of the RIP plant and in 2005 was appointed Director of Production at MC PHM. In 2007, he was appointed Chief Engineer of MC Petropavlovsk.

02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07 **Valery Alekseev**
General Director of Kapstroi

A qualified engineer who has been with the Group since inception, Mr Alekseev has been the backbone of all construction projects carried out by the Group to date. Prior to his career with the Group, Mr Alekseev worked on other prominent mine engineering projects in Russia and elsewhere, including managing the design and construction of the Murantau plant in Uzbekistan – one of the largest of its kind in the world. In his current role with the Group, Mr Alekseev heads Kapstroi, a Group subsidiary specialising in mine construction.

06 **Professor Yakov Schneerson**
Director of Gidrometallurgiya R&D centre

Professor Schneerson is one of the world's leading specialists in autoclave technology. He is accredited with more than 65 inventions and patents and has published more than 300 scientific papers and books. Prior to his work with the Group, Professor Schneerson oversaw the commissioning of the first POX plant in Russia, Nadezhdinskiy (now operated by Norilsk Nickel), which over 30 years later is still in operation, and worked on other prominent pressure oxidation projects. His extensive scientific and engineering expertise has been a driving force in researching new processing technologies for the Group.

06


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04 **Yury Golubev**
Deputy General Director of PHM Engineering

Prior to joining the Group in 2005, Mr Golubev was involved in the development of projects in Russia, Kazakhstan and Uzbekistan, and received a prestigious Soviet award for his work in the latter. Alongside his role with the Group, Mr Golubev has acted as an expert of the State Reserves Committee of the Russian Federation since 1980 and is regularly invited to participate in mining-related conferences and has published many Russian-language articles. In 2007, he received a prominent award in recognition of his contribution to the Russian mining industry.

03 **Vera Usova**
Head of Environmental Safety

Ms Usova is a qualified geologist and ecologist. She joined the Group in 2001 and is now Head of Environmental Safety. Her work has been noted by the government of the Amur region who awarded her a Certificate of Merit for her long-term contribution to environmental protection in 2003. Ms Usova has also published two Russian language books on ecology in the field of gold mining.

05

05 **Nikolai Vlasov**
Chief Geologist

One of the original members of the Group's founding management team, Mr Vlasov previously headed a Soviet governmental department responsible for evaluating gold resources in the Russian Far East. The experience and geological knowledge of the Amur region he has amassed during his career has been invaluable to the Group in identifying prospective, new geological targets, including the Pioneer, Malomir and Albyn deposits which are now working mines. Mr Vlasov has several state and industry awards for his work.

Directors' Report

For the year ended 31 December 2011

Report and financial statements
The Directors present their report and the audited financial statements for the year ended 31 December 2011.

Principal activities and future development
The principal activities of the Group, which are mainly based in Russia, during the year were:

- Gold mining, exploration and development of the Pokrovskiy, Pioneer, Malomir and Albyn mines and the mining of the Group's alluvial deposits;
- Exploration for the assessment of mineralisation and the estimation of reserves and resources of deposits located in the following regions of Russia: the Amur region, Krasnoyarsk Krai, Yamal-Nenets Autonomous District and Zabaikalskiy Krai (Chita region);
- Evaluation of potential acquisition and joint venture opportunities in gold mining in Russia; and
- Evaluation of potential business opportunities.

The principal activities of IRC, a 65.6% owned subsidiary of the Group, during the year were:

- Iron ore production at Kuranakh;
- The exploration and development of iron-related reserves and resources, including the K&S project with the commencement of the construction programme, the Garinskoye project, the Bolshoi Seym project, as well as the Kostenginskoye and Garinskoye Flanks projects; and
- Processing of steel slag commenced from production at the Steel Slag Reprocessing Plant in north-eastern China, IRC's 46% owned joint venture.

Plans for future developments are included in the statements of the Chairman on pages 4 to 7, Our Strategy page 11 and Our Assets on pages 44 to 59.

Post balance sheet events
Details of events occurring since 31 December 2011 are set out in note 36 to the Consolidated Financial Statements.

Business review and Group results
Under Section 417 of the Companies Act 2006, the Directors are required to prepare a business review. This comprises of the following, each of which are incorporated by reference into, and form part of this Directors' Report:

- The statements of the Chairman, and Honorary President on pages 4 to 8;
- Our Strategy on pages 10 to 21;
- The Operating Responsibly report on pages 22 to 23;
- Gold: Our Market Position and Competitive Environment of pages 24 to 27;
- The Key Performance Indicators on pages 30 to 33;
- The Chief Financial Officer's Statement on pages 34 to 43;
- The statements in the section entitled "Operations, development and performance in 2011" on pages 44 to 61;
- The statements in the section entitled Exploration, Reserves and Resources on pages 62 to 75;
- The Report of the Risk Committee on pages 76 to 87;
- The Corporate Governance Report on pages 99 to 107; and
- The Directors' Remuneration Report on pages 108 to 120.

Research and development
Companies within the Group carry out exploration, development and analysis work necessary to support their activities.

Further information is given in the "Operations, development and performance in 2011" section on pages 44 to 61 and in the "Exploration, Reserves and Resources" section on pages 62 to 75 which form part of this Directors' Report.

Sustainability
Further information is given in the Operating Responsibly section on pages 22 to 23 and the Sustainability Report 2011.

Directors
The current Directors of the Company at the date of this report and their biographical details appear on pages 88 and 89 and are incorporated into this report by reference. Subject to the following, all of the Directors held office throughout the year ended 31 December 2011.

Dr Pavel Maslovskiy resigned as Chief Executive Officer and Mr Sergey Ermolenko was appointed as Chief Executive Officer on 20 December 2011. Messrs Andrey Maruta and Martin Smith, and Dr Alfiya Samokhvalova were appointed to the Board on 4 January 2011.

Dr David Humphreys was appointed as a Non-Executive Director on 24 August 2011 and Mr Peter Hill-Wood retired as a Non-Executive Director on 19 May 2011 at the conclusion of the Company's Annual General Meeting.

Ms Rachel English will be appointed as a Non-Executive Director of the Company on 28 March 2012. Ms English has over 25 years' international experience in blue-chip companies, with responsibilities spanning finance, strategy, planning, business development, and mergers and acquisitions. She is currently a non-executive director of Kuwait Energy Plc, Global Carbon Capture and Storage Institute Ltd, the Audit Committee of the Department for International Development, and NHS London. She is also a non-executive director of Helios Social Enterprise, which she founded with former Scottish Power, BP and Shell senior executives to develop renewable energy access projects in rural sub-Saharan Africa. She was formerly Chief Financial Officer at Gasol Plc and, prior to that, Senior Corporate Strategist at BG Group Plc. She has also held senior positions with British Energy Plc, Entergy Inc and Shell Gas & Power. Ms English is a graduate of the University of Oxford and a Fellow of the Institute of Chartered Accountants in England and Wales.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006, and related legislation. Directors may be appointed by the Company by ordinary resolution or by the Board, on recommendation of the Nomination Committee. The Company may, in accordance with and subject to the provisions of the Companies Act 2006, by ordinary resolution of which special notice has been given, remove any Director before the expiration of his/her term of office. A Director appointed by the Board holds office only until the following Annual General Meeting and is then eligible for election by the shareholders but is not taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting. In accordance with the requirements of the UK Corporate Governance Code, all Directors will stand for election at the 2012 AGM, with the exception of Mr Brian Egan who will resign as Chief Financial Officer and as a Director of the Company on 13 April 2012 and will therefore not be seeking re-election. Further information on the appointments to the Board is set out in the Corporate Governance Report on pages 99 to 102.

Directors' interests

The interests of the Directors in the share capital of the Company at the beginning and end of the year, as well as at the date of this report, are as detailed in the table below.

There have been no changes to the interests of the Directors between 1 January 2012 and the date of this report.

Details of the awards made to Directors under the Company's Long-Term Incentive Plan are set out in the Director's Remuneration Report on pages 113 to 115.

	As at 1 January 2011		**As at 31 December 2011**		As at 27 March 2012	
	Ordinary Shares of £0.01 each	% of issued share capital	**Ordinary Shares of £0.01 each**	**% of issued share capital**	Ordinary Shares of £0.01 each	% of issued share capital
Graham Birch	10,000	0.005%	**10,000**	**0.005%**	10,000	0.005%
Brian Egan	Nil	Nil	**Nil**	**Nil**	Nil	Nil
Sir Malcolm Field	50,312	0.03%	**50,312**	**0.03%**	50,312	0.03%
Lord Guthrie	Nil	Nil	**Nil**	**Nil**	Nil	Nil
Peter Hambro and Associates	10,630,768	5.66%	**8,672,558**	**4.62%**	8,672,558	4.62%
Peter-Hill Wood [1]	58,281	0.03%	**58,281**	**0.03%**	N/A	N/A
Sir Roderic Lyne	1,625	0.001%	**1,625**	**0.001%**	1,625	0.001%
Pavel Maslovskiy and Associates [2]	16,861,696	8.98%	**14,903,486**	**7.93%**	N/A	N/A
Andrey Maruta [3]	3,333	0.0018%	**3,333**	**0.0018%**	3,333	0.0018%
Charles McVeigh	500	0.0003%	**500**	**0.0003%**	500	0.0003%
Alfiya Samokhvalova [3]	Nil	Nil	**Nil**	**Nil**	Nil	Nil
Martin Smith [3]	Nil	Nil	**Nil**	**Nil**	Nil	Nil
David Humphreys [4]	N/A	N/A	**1,820**	**0.001%**	1,820	0.001%
Sergey Ermolenko [5]	N/A	–	**302,500**	**0.16%**	302,500	0.16%

1 *Mr Peter Hill-Wood retired as a Director on 19 May 2011, hence the number of shares shown as at 31 December 2011 represents the number of shares held as at the date of his resignation.*

2 *Dr Pavel Maslovskiy resigned as a Director on 20 December 2011, hence the number of shares shown as at 31 December 2011 represents the number of shares held as at the date of his resignation.*

3 *Mr Andrey Maruta, Dr Alfiya Samokhvalova and Mr Martin Smith were appointed as Directors on 4 January 2011, hence the number of shares shown as at 1 January 2011 represents the number of shares held as at the date of their appointment.*

4 *Dr David Humphreys was appointed as a Director on 24 August 2011, hence the number of shares shown as at 1 January 2011 represents the number of shares held as at the date of his appointment.*

5 *Mr Sergey Ermolenko was appointed as a Director on 20 December 2011, hence the number of shares shown as at 1 January 2011 represents the number of shares held as at the date of his appointment.*

Status of interests of Dr Pavel Maslovskiy and Associates

Following his resignation as a Director of the Company on 20 December 2011, Dr Maslovskiy has no obligation to notify the Company of any transactions he undertakes in Petropavlovsk shares pursuant to the Financial Services Authority's ("FSA") Disclosure and Transparency Regulation ("DTRs") 3. Accordingly no interest is shown for Dr Pavel Maslovskiy as at 31 December 2011 or as at 27 March 2012 in the previous table on Directors' interests.

Risks and uncertainties

Risk is inevitable in business and the Group faces many risks. Some are specific to the Group, some relate to the Group's industry, some are Russia-related and some relate to the environment in which the Group operates. These are further discussed in the Report of the Risk Committee which contains a summary of the Group's principal risks on pages 76 to 87, which forms part of this Directors' Report.

Going concern

At the time when the Consolidated Financial Statements are authorised, there is a reasonable expectation that the Group has sufficient liquidity and adequate resources to continue operational existence for the foreseeable future as described in note 2.1. Accordingly, the Directors continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

Key Performance Indicators

The Company's performance is measured against the Key Performance Indicators ("KPIs") as contained on pages 30 to 33.

Financial instruments and financial risk management

Details of the Group's financial risk management objectives and policies and exposure to risk are described in note 32 to the Financial Statements and in the Report of the Risk Committee on pages 76 to 87 which forms part of this Directors' Report.

Dividends

As the business of the Company develops, and subject to the availability of distributable reserves, the Directors intend to pursue a dividend policy which reflects the Company's cash flow and earnings, while maintaining an appropriate level of dividend cover and having regard to further fund the development of the Company's activities.

The Directors recommend a final dividend for 2011 of 7 pence per Ordinary Share which together with the interim dividend of 5 pence per Ordinary Share paid in November 2011 makes a total dividend for the year of 12 pence per Ordinary Share (2010: 10 pence). The final dividend, if approved by shareholders at the 2012 Annual General Meeting will be paid on 26 July 2012 to shareholders on the register as at 29 June 2012. The associated ex dividend date will be 27 June 2012.

The Board considers that the proposed dividend level is appropriately covered and is consistent with the Company's development spending.

Supplier payment policy

It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangement negotiated with suppliers and then to pay according to those terms based upon receipt of an accurate invoice. Trade creditor days for the year ended 31 December 2011 were 35 days on average for the Group (2010: 35) and 23 days on average for the Company (2010: 23).

Donations

No political donations were made and no political expenditure was incurred during the year (2010: US$nil). Sponsorship and charitable donations amounted to US$3.4 million (2010: US$ 2.5 million). During the year, the Group continued to provide its charitable financial support through the Petropavlovsk Foundation for Social Investment (the "Foundation") which was established in 2010 to coordinate the Group's social investment in the Russian Far East. The Foundation is a non-commercial and charitable organisation which finances cultural, educational and other social activities within the Russian Far East. The Group regards the provision of charitable donations as an important part of its strategy to maintain good working relationships with local authorities.

Details of the Group's charitable activities are set out in the Sustainability Report 2011 and on pages 23 and 29 of this Report.

Corporate governance and shareholder relations

The Corporate Governance Report on pages 99 to 107 has been prepared in accordance with Rule 7.2 of the FSA's Disclosure and Transparency Rules and forms part of this Directors' Report.

Details of the Company's compliance with the UK Corporate Governance Code, including relations with shareholders, are set out in the Corporate Governance Report on pages 103 to 104.

Employees

The Group maintains a policy of providing employees with information about the Company and regular meetings are held between management and employees to allow exchanges of information and ideas. Further information of the Group's consultation with employees and sharing of information is contained in the Sustainability Report 2011.

The Group is committed to providing equal opportunity for individuals in all aspects of employment. The Group gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

Directors' indemnities
A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of the Directors in respect of liabilities incurred as a result of their office to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

Significant agreements – change of control
A change of control of the Company following a takeover bid may cause a number of agreements to which the Company, or any of its subsidiaries, is party, such as commercial trading contracts, joint venture agreements, and banking arrangements to take effect, alter or terminate. In the context of the potential impact on the Group, certain of these arrangements are considered to be significant.

The following significant agreements contain certain termination and other rights for the counterparties of the Group companies upon a change of control of the Company.

Pursuant to the issue of US$380 million 4.00% guaranteed convertible bonds due on 18 February 2015 ("the Bonds") issued by Petropavlovsk 2010 Limited ("the Issuer") on 18 February 2010 and guaranteed by the Company, upon a change of control over the Company constituting a Relevant Event (as defined in the Terms and Conditions of the Bonds and the Articles of Association of the issuer), the exchange price of the shares of the Company shall be adjusted in accordance with the formula contained in the Terms and Conditions of the Bonds and the Bondholders have the right to require the redemption of the Bonds at their principal amount plus accrued and unpaid interest to the date of redemption.

Pursuant to an up to US$340 million Credit Facility dated 13 December 2010 ("ICBC Loan") between Industrial and Commercial Bank of China Limited, ZAO Industrial and Commercial Bank of China (Moscow) as the lenders and LLC Kimkano-Sutarskiy Mining and Beneficiation Plant as borrower and the Company as guarantor, if any person or group of persons acting in concert gains control of the Company, the lenders may cancel the total commitments under the ICBC Loan and may accelerate all amounts outstanding under the ICBC Loan so that they become immediately due and payable.

Powers of Directors
Subject to the Company's Articles of Association, the prevailing legislation and any directions given by special resolution, the business and affairs of the Company will be managed by the Directors who may exercise all such powers of the Company. The powers of Directors are further described in the Schedule of Matters reserved for the Board, copies of which are available on the Company's website at www.petropavlovsk.net

Conflicts of interest
Under the Companies Act 2006, Directors are subject to a statutory duty to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company.
The Companies Act 2006 allows Directors of public companies to authorise conflicts and potential conflicts of interest of directors where the articles of association contain a provision to that effect. The Company's Articles of Association afford the Directors such powers. In addition, the Directors will be able to impose limits or conditions when giving any authorisation, if they think this is appropriate. Directors of the Company who have an interest in matters under discussion at Board meetings are required to declare this interest and, subject to certain exceptions, to abstain from voting on the relevant matters. Any material related party transactions will be approved by a committee of the Board consisting solely of independent Directors.

The Directors have reviewed the interests declared by Directors which could conflict with those of the Company, and are satisfied that the Board's power to authorise potential conflicts is operating effectively.

Amendment of Articles of Association
The Company's Articles of Association may be amended by special resolution of shareholders.

Capital structure
Details of the Company's issued share capital is shown in note 26 on page 163. No shares were issued during the year.
The Company has one class of Ordinary Share which carries no rights to fixed income.

– Rights and obligations attaching to Ordinary Shares

  The rights attaching to the Ordinary Shares are governed by the Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding. Subject to any rights or restrictions attached to any Ordinary Shares, on a show of hands every shareholder present in person or by proxy (or being a corporation present by a duly authorised representative) has one vote, and on a poll every shareholder who is present in person or by proxy has one vote for every Ordinary Share held by the shareholder.

– Restrictions on voting

  No shareholder shall be entitled to vote at any general meeting or class meeting in respect of any Ordinary Shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. Currently, all issued Ordinary Shares are fully paid. In addition, no member shall be entitled to vote if he failed to provide the Company with information concerning interests in those Ordinary Shares required to be provided under the Companies Act 2006.

– Deadlines for voting rights

  Votes are exercisable at general meetings of the Company. The notice of a general meeting will specify the deadline for appointing a proxy or proxies to vote in relation to resolutions to be passed at that meeting.

– Transfer of Ordinary Shares

  The transfer of Ordinary Shares, is governed by the general provisions of the Company's Articles of Association and prevailing legislation. There are no restrictions on the transfer of the Ordinary Shares other than (i) as set out in the Articles of Association; (ii) certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and (iii) pursuant to the Listing Rules of the Financial Services Authority whereby certain Directors, officers and employees of the Company require the approval to deal in the Ordinary Shares in accordance with the Company's share dealing rules.

  The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share (or renunciation of a renounceable letter of allotment) unless:

1. it is in respect of a share which is fully paid up;
2. it is in respect of only one class of shares;
3. it is in favour of a single transferee or not more than four joint transferees;
4. it is duly stamped (if so required); and
5. it is delivered for registration to the Company's registered office or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the Uncertificated Securities Regulations (as defined in the Company's Articles of Association).

Subject to certain exceptions, the Board may refuse to register a transfer of Ordinary Shares by a person with a 0.25% interest (as defined in the Company's Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

The Board shall not refuse to register any transfer or renunciation of partly-paid Ordinary Shares which are listed on the London Stock Exchange on the grounds that they are partly paid Ordinary Shares in circumstances where such refusal would prevent dealings in such Ordinary Shares from taking place on an open and proper basis.

If the Board refuses to register a transfer of a share it shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee. Any instrument of transfer which the Board refuses to register shall (except in the case of suspected or actual fraud) be returned to the person depositing it.

– Shareholder agreements

The Directors are not aware of any agreements between holders of the Company's Ordinary Shares that may result in restrictions on the transfer of securities or on voting rights or any arrangements by which, with the Company's co-operation, financial rights carried by securities are held by a person other than the holder of the securities. No person has any special rights of control over the Company's share capital.

– Ordinary Shares held by the Employee Benefit Trust

Ordinary Shares held by the Petropavlovsk's Employee Benefit Trust abstain from voting.

– Allotment of Ordinary Shares and disapplication of pre-emption rights

The Company has authority to issue Ordinary Shares under its Articles of Association and an ordinary resolution will be proposed at this year's Annual General Meeting to authorise Directors to allot Ordinary Shares up to a maximum aggregate nominal amount of £619,938. This represents the aggregate of 33% of the nominal value of the Ordinary Shares in issue as at the date of this report. A special resolution is to be proposed which will disapply the statutory pre-emption rights for issues of Ordinary Shares for certain purposes.

– Repurchase of Ordinary Shares

The Company was granted authority to repurchase up to 5% of its issued share capital at the Annual General Meeting held on 19 May 2011. This authority will expire at the conclusion of this year's Annual General Meeting unless renewed at that meeting. The Company has not made use of this authority during the year under review. The Board will seek shareholder approval at this year's Annual General Meeting for the authority to repurchase up to 5% of the issued share capital.

Further details of the above proposals and resolutions will be contained in the Notice of the Annual General Meeting.

Interests in voting rights

Information provided to the Company pursuant to the Financial Services Authority's ("FSA") Disclosure and Transparency Rules ("DTRs") is published on a Regulatory Information Service and on the Company's website. As at the year-end and the date of this report, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares.

	31 December 2011		27 March 2012	
Shareholder	Number of Ordinary Shares	% of issued Ordinary Share capital	Number of Ordinary Shares	% of issued Ordinary Share capital
BlackRock, Inc.	**20,895,603**	**11.12%**	20,522,080	10.92%
Peter Hambro & Associates	**8,672,558**	**4.62%**	8,672,558	4.62%
Vanguard Precious Metals and Mining Fund	**7,750,000**	**4.13%**	7,750,000	4.13%
Legal & General Group plc	**6,138,385**	**3.27%**	6,138,385	3.27%
Capital Research and Management Company	**6,047,130**	**3.22%**	6,047,130	3.22%

Status of interests of Dr Pavel Maslovskiy and Associates

The shareholding previously notified to the Company as owned by "Pavel Maslovskiy and Associates" is held through various structures where Dr Maslovskiy has no ability to determine how the shares are voted. Accordingly DTR5 does not require these holdings to be aggregated. As at 31 December 2011 and as at the present time none of these holdings comprised of 3% or more of the Company's issued share capital and accordingly no disclosure has been made to the Company pursuant to DTR5. Accordingly no interest is shown for Dr Pavel Maslovskiy and Associates as at 31 December 2011 or as at 27 March 2012 in the above 'Interests in voting rights' table.

Deadlines for exercising voting rights

Votes are exercisable at a general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

Auditor

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

– so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and

– each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

This report was approved by the Board of Directors of Petropavlovsk PLC and signed on its behalf by:

Amanda Whalley
Company Secretary
27 March 2012

Letter from the Chairman of the Company and Nomination Committee Chairman

Dear shareholder, on behalf of the Board, I am pleased to present the Corporate Governance Report for 2011.
Peter Hambro
Chairman

Board changes
On 20 December 2011 I was proud to announce the election of Dr Pavel Maslovskiy as a Senator and Member of the Federation Council of Russia (Upper House of the Russian Parliament). This followed Dr Maslovskiy's election as a member of the Amur region parliament on 4 December 2011. As a consequence of this appointment, Dr Maslovskiy resigned from his longstanding role as the Company's Chief Executive Officer in order to take up his parliamentary responsibilities. Under Russian law, Senators are prohibited from holding a business office that is remunerated or which has a management as opposed to an advisory role. In order to retain the benefit of Dr Maslovskiy's knowledge and experience the Board conferred on him the title of Honorary President, a role for which he receives no remuneration. In his capacity as Honorary President, Dr Maslovskiy continues to advise Mr Ermolenko and to attend Board meetings, although he does not vote at meetings of the Board. We are grateful to Dr Maslovskiy for his continued support.

The Board has been considerably strengthened during 2011 and the beginning of 2012 with the addition of four Executive Directors and the appointment of two new Non-Executive Directors (including the appointment of Ms Rachel English with effect from 28 March 2012). However I and the Board miss the support and wise counsel provided by Mr Peter Hill-Wood who retired as a Non-Executive Director on 19 May 2011.

Most significant among the new team, Mr Sergey Ermolenko, a founding shareholder and General Director of Management Company Petropavlovsk (the Group's main operating company in Russia) since its inception, was appointed as a Director and Chief Executive Officer on 20 December 2011 to replace Dr Maslovskiy. Sergey was also appointed as a member of the Executive Committee on the same date.

Mr Ermolenko was, with Dr Maslovskiy, Dr Nikolai Vlasov, Mr Valery Alekseev and myself, one of the original five members of the Group's founding management team and has been the Company's key operational executive.

The Board has also benefited from the appointment of a number of other new Executive Directors. Dr Alfiya (Alya) Samokhvalova, previously Head of External Relations, a position that she continues to hold, was appointed as Strategic Director in January 2011. Her technical ability, knowledge and expertise in the field of mining and of our business, as well as her understanding of the Russian culture are extremely valuable in managing our operations within Russia.

I was also pleased to welcome Mr Andrey Maruta and Mr Martin Smith to the Board following their appointment as Finance Director - Russia and Technical Director, respectively, on 4 January 2011. Prior to their appointment as Directors, Andrey and Martin had both worked for the Company for a number of years in senior positions; Andrey as Group Financial Controller and Martin as Group Head, Technical Services. Martin's additional appointment as Deputy Chief Executive to assist Sergey Ermolenko was announced on 20 December 2011.

During the year, in addition to finding a suitable replacement for Mr Peter Hill-Wood, the Board also sought to strengthen the composition of the Board by appointing an additional Non-Executive Director, this was in part led by succession planning issues.

The Nomination Committee led this appointment process on behalf of the Board working closely with external consultants. As part of their remit, the consultants assisted the Nomination Committee in undertaking a skills analysis to clarify where the current Non-Executive Directors possessed certain attributes and to highlight where additional skills or attributes might be helpful to the Board. Their report concluded that the Company's individual Non-Executive Directors combine to bring an exceptionally high-level mix of skills; fund management, banking and other City experience; the broadest international, diplomatic and political experiences; together with in-depth knowledge of the metals and mining sphere and broad experience as Non-Executive Directors on PLC boards.
The report did, however, conclude that given the size and international aspect of the Group, the Company should consider the diversity of the Board and recognise the value that a woman Director would bring.
On 25 August 2011, the Company had announced that it would take Lord Davies' comments included in his report on 'Women on Boards' published in February 2011 into consideration for future appointments whilst noting that the Board believed that this issue is part of the wider diversity debate and that the skills, nationality and expertise of a potential Board member also needed to be taken into consideration. However the Board had concluded that it was not appropriate at that time to set an aspirational target for the number of women that it would aim to have on the Board in 2013 and 2015 and the Board still considers this to be the case. The Nomination Committee and the Board also considered succession planning as an integral part of the selection process.

The Board of Directors

Director	Title	Date of appointment	Date of resignation
Peter Hambro	Chairman	20 December 2001	
Pavel Maslovskiy *	Chief Executive Officer	20 December 2001	20 December 2011
Sergey Ermolenko	Chief Executive Officer	20 December 2011	
Brian Egan	Chief Financial Officer	22 April 2009	
Andrey Maruta	Finance Director - Russia	4 January 2011	
Alfiya Samokhvalova	Strategic Director/Group Head of External Communications	4 January 2011	
Martin Smith	Deputy Chief Executive/ Technical Director	4 January 2011	
Graham Birch	Non-Executive Director Senior Independent Director	12 February 2010 4 January 2011	
Sir Malcolm Field	Non-Executive Director	22 April 2009	
Lord Guthrie	Non-Executive Director	22 January 2008	
Sir Roderic Lyne	Non-Executive Director	22 April 2009	
Charles McVeigh III	Non-Executive Director	25 June 2009	
David Humphreys	Non-Executive Director	24 August 2011	
Peter Hill-Wood	Non-Executive Director	12 June 2003	19 May 2011

** Dr Maslovskiy was appointed as Honorary President of the Company on 20 December 2011 although he is no longer a member of the Board of Directors.*
Ms Rachel English will be appointed as a Non-Executive Director on 28 March 2012.

As a result of the above process and following the retirement of Mr Peter Hill-Wood, at the conclusion of the Company's Annual General Meeting on 19 May 2011, I was pleased to announce the appointment of Dr David Humphreys on 24 August 2011 to replace him. Dr Humphreys has a broad range of experience within the global mining industry as a consultant, lecturer and academic. He has extensive knowledge of the Russian mining industry, having been Chief Economist at Norilsk Nickel, Russia's largest mining company, from 2004 to 2008 and was formerly Chief Economist of Rio Tinto, a position he held for eight years. I would like to take this opportunity to thank Mr Peter Hill-Wood both personally and on behalf of the Company for his significant contribution to the Board during his tenure as a Non-Executive Director.

I am also pleased to announce the appointment of Ms Rachel English as a Non-Executive Director with effect from 28 March 2012, following the recommendation to the Board of the Nomination Committee. Whilst her appointment is based on her skills, experience and knowledge, her appointment will bring more diversity to the Board. Following her appointment, our Board and our Executive Committee are now comprised of 15% and 20% of women respectively.

The Board
Following the above changes, the Board comprises myself as Chairman, five Executive Directors and seven Non-Executive Directors (following the appointment of Ms English) all of whom are considered by the Company to be independent in character and judgement and free from any business or other relationship which could materially interfere with the exercise of their judgement. Biographies of the Directors and of our Honorary President, including details of their skills and experience, are provided under 'Board of Directors and Honorary President' on pages 88 to 89. The biography for Ms English is provided in the Directors' Report on page 92.

Dr Humphreys undertook an induction programme following his appointment. This included meetings with senior management within the Company, attendance at Committee meetings and the provision of detailed information on the Group. Ms English will undertake a similar induction programme. The Board is satisfied that all Directors have sufficient time to devote to their roles, and that having refreshed the composition of our Board with the appointment of six new Directors since 1 January 2011, it is not placing undue reliance on key individuals. Indeed, with the addition of our new colleagues, I anticipate the continuation of healthy debate and discussions at our Board meetings. Other than as detailed above there were no further changes to the Board during the year.

During the year the Board met on six scheduled occasions. Further Board meetings were held to deal with matters of a routine or administrative nature. We also held a separate dedicated strategy meeting in November which was attended by all of the Directors, during which presentations were made by senior executives of the Company. I discuss matters on a regular basis with both the Executive Directors and the Non-Executive Directors. During the year I held separate meetings with the Non-Executive Directors as did my colleague Dr Graham Birch, in his capacity as Senior Independent Director.

We, as a Board, are responsible for the determination and monitoring of the Company's strategic aims, budgets, major items of capital expenditure and senior appointments, the direction and control of the Company and the management of the capital structure. We seek to ensure that the necessary financial and human resources are, and will continue to be, in place to enable the Company to meet its objectives.

We have adopted a formal schedule of matters reserved for the Board's decision, a copy of which can be found at www.petropavlovsk.net. In addition to the standard agenda items the Board has considered the following matters during the year:

- the Group's compliance with the Bribery Act 2010 which came into force on 1 July 2011, a result of which was the constitution of an Anti-Bribery Committee, chaired by myself, as Company Chairman, to ensure that the Group has adequate processes and procedures in place in order that the Company can comply with the Act; and
- the Company's five year strategic and mining plan.

Professional development and information
I ensure that all Directors continually update their skills and knowledge, and develop the familiarity with the Company's operations needed to fulfil their role on both the Board and any Committees.

During the year the Board had a presentation by an external adviser on directors' duties, which focussed on the regulatory framework, duties to stakeholders, corporate conduct and governance. In addition the Non-Executive Directors are invited, at the Company's expense, to attend conferences and seminars on the mining industry.

The Board is supplied with regular and timely information in a form and of a quality that enables it to discharge its duties. The Directors receive reports, in advance of each Board meeting, on the Group's operations, updates on financial matters, investor relations and briefings on regulatory and corporate governance issues. The Directors also receive copies of papers considered at Executive Committee meetings including minutes of these meetings. All Directors are encouraged to make further enquiries, as they feel appropriate, of the Executive Directors or management.

Board committees are provided with sufficient resources and the power to obtain such additional support and professional advice as they may require. All Directors have access to the services of a professionally-qualified and experienced Company Secretary, who is responsible for information flows to the Board and its committees and between senior management and Non-Executive Directors, facilitating induction and assisting with professional development as required, ensuring compliance with Board procedure and applicable laws and regulation. There is an agreed procedure for Directors to take independent professional advice at the Company's expense if considered necessary to discharge their responsibilities as Directors.

Nomination Committee

I currently Chair the Nomination Committee, assisted by my fellow Directors Sir Malcolm Field, Mr Charles McVeigh and Dr Graham Birch as members of the Committee. Mr Peter Hill-Wood retired as a member of the Committee on 19 May 2011.

During the year the Nomination Committee considered the selection and appointment of the new Non-Executive Directors and the new Chief Executive Officer following the resignation of Dr Maslovskiy. Appointments were recommended to the Board on merit and against objective criteria. Care was taken to ascertain that Dr Humphreys and Ms English would have sufficient time available to meet their Board and committee responsibilities before any formal recommendation was made to the Board for their appointment. As part of this process, Dr Humphreys and Ms English were asked to disclose all other time commitments and, on their appointment, undertake to inform the Board of any changes and confirm that they would have sufficient time to fulfil their responsibilities. Their letters of appointment detail the expected time commitments. The terms and conditions of appointment of all Directors are available for public inspection. No Director has a notice period of more than one year.

In addition, this Committee reviewed succession planning for the Executive Directors and for members of the Executive Committee and this remains a key focus for this Committee. As part of its remit, the Committee also reviewed the appointment of each Director prior to that Director seeking re-election at the forthcoming Annual General Meeting and was pleased to recommend the re-election of all Directors to the Board. I am pleased to note that all the incoming Directors are considerably younger than me.

New committees

Strategic and Technical Committees

We have continued to focus on our governance arrangements to ensure that these meet best practice whilst assisting the strategy of the Company for growth through exploration and new technologies. As a result of a strategic review of the business in the fourth quarter of 2010 we formed two new committees to manage the more complex multi-mine business which the Group has transformed into in recent years: the Strategic Committee and the Technical Committee. The Strategic Committee is chaired by Dr Alya Samokhvalova, Strategic Director whilst the Technical Committee is chaired by Mr Martin Smith, Deputy Chief Executive and Technical Director. The functions of the Strategic Committee are to formulate annual and long-term budgets and forecasts and to monitor performance against these. Whilst the Technical Committee is responsible for providing technical analysis of the Group's budgets, forecasts and investment plans. Both Committees report to the Executive Committee, with reports on their work being made to the Board by the Committee Chairman. The new Committee structure is working well with detailed presentations on the Company's five year strategic plan being made to the Board in November 2011, for review and discussion, following detailed analysis on proposed projects, exploration and mining plans having been undertaken by these two committees.

Anti-Bribery Committee

The Board has adopted a zero-tolerance approach to corruption and bribery issues. In order to ensure that the Company has appropriate policies and procedures in place to comply with the new legislation introduced under the Bribery Act 2010, which came into force on 1 July 2011, the Board established an Anti-Bribery Committee during the latter part of 2010, for which I act as Chairman. The Anti-Bribery Committee also comprises three Executive Directors, two members of the Executive Committee and the Company Secretary. The Committee has adopted policies and procedures and has provided training on the new legislation to our employees in both Russia and London. This Committee reports to the Board on a regular basis.

Board and Board committees

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy, risk management and financial performance. The Board has established a number of committees and provides sufficient resources to enable them to undertake their duties. These are detailed on page 105.

UK Corporate Governance Code compliance

I and the Board are committed to high standards of corporate governance. We believe that good governance is fundamental to the success of the Company and to our relationship with our key stakeholders.

I can confirm that with one exception the Company is currently in compliance with the UK Corporate Governance Code which was adopted by the Financial Reporting Council to replace the Combined Code for accounting periods of Premium Listed companies commencing on or after 29 June 2010.

The one exception concerns my position as Chairman of the Company. I was not considered "independent" under the terms of the Code at the date of my appointment nor do I satisfy the required independent criteria now. However, my role as Chairman is clearly separated from that of Mr Sergey Ermolenko, Chief Executive Officer and prior to Mr Ermolenko's appointment my role was clearly separated from that of Dr Maslovskiy. The division of responsibilities between my role of Chairman and that of Sergey's role of Chief Executive Officer and of Martin Smith's role of Deputy Chief Executive, with clear and well defined reporting lines, have been set out in writing and agreed by the Board. A copy of the document is available on the Company's website at www.petropavlovsk.net

My primary role as Chairman is to provide leadership to the Board, necessary to promote the success of the Company and create value for shareholders in the long-term, whilst ensuring that sound effective corporate governance practices are embedded in the Group and in its decision making processes.

Compliance during the year:

In addition to the non-compliance detailed above, the Company did not comply with the following provisions during 2011:

i. Following the retirement of Mr Peter Hill-Wood and prior to the appointment of Dr David Humphreys as a Non-Executive Director on 24 August 2011, the independent Non-Executive Directors did not comprise at least half of the Board. During this period and prior to the retirement of Mr Hill-Wood the Company was actively seeking to appoint an additional Non-Executive Director. The Nomination Committee and the Board thought it appropriate to ensure that the most suitable candidate was appointed, who could assist the Board in achieving the Company's strategy, even if this resulted in a short period during which the Company would not be in compliance with Provision B.1.2 of the Code. Following the appointment of Ms Rachel English as a Non-Executive Director with effect from 28 March 2012, seven of the Company's thirteen Directors will be considered as independent both by the Company and under the Code.

ii. As a result of the additional public holiday on 29 April 2011 for the Royal Wedding, the 2010 Report & Accounts of the Company were not sent to shareholders 20 clear working days before the Company's Annual General Meeting and did not comply with Provision E.2.3 of the Code. The Board apologises to shareholders for this failing. The Notice of General Meeting and the Proxy Forms were posted within the requisite timescale.

Performance evaluation

As part of the Board's commitment to rigorous standards of corporate governance, the Board appointed an external assessor, Abbeywell Associates Limited to undertake a full Board and Committee evaluation in 2010. All Directors completed a confidential internally designed questionnaire which was used to form the basis of one-on-one interviews with the assessor which took place in the early part of 2011. The evaluation focussed on the performance of the Board, its Committees and its Executive and Non-Executive Directors. A detailed report was submitted to the Board in March 2011 for review and discussion. Although identifying some areas for improvement, including a more formalised induction programme for new Directors and more detailed succession planning, the report concluded that i) the Board and its Committees continue to operate effectively and ii) I and my fellow Directors contribute effectively and have demonstrated commitment to our roles. As a result of the evaluation, the Nomination Committee scheduled an additional meeting during the year and considered succession planning issues in more detail. A more formalised induction programme was introduced for Dr Humphreys, which included meetings with senior executives and attendance at Committee meetings prior to his appointment to the relevant Committee, and it is proposed that Ms English will undertake a similar induction programme upon her appointment.

The 2011 evaluation of the Board, its Committees, and its Executive and Non-Executive Directors has been undertaken internally using a confidential questionnaire with Directors identifying opportunities for improvement. The questionnaire covered issues such as effectiveness of the Board and its Committees, how well strategy is tested and developed, Board composition and succession planning, and risk management controls. The responses of the Directors were collated into a report by the Company Secretary. Separate conversations were then held between each Director and the Senior Independent Director, Dr Graham Birch, who also led the Non-Executive Directors' assessment of my performance as Chairman. I have discussed the outcome of the evaluation with Dr Birch and he has formally reported the results to the Board. The evaluation concluded that the Company's succession planning has developed as a consequence of actions undertaken following the 2010 Board performance evaluation, although the Board recognises that, by its very nature, succession planning is an on-going and evolving process. This demonstrates the positive benefits to the Company of such a performance evaluation. The 2011 evaluation, although identifying areas for review for which actions will be proposed, has concluded that the Board and its Committees are operating effectively.

Based on this process, we continue to implement changes to enhance the Board's performance of its responsibilities.

Shareholder engagement
In our 2010 preliminary results presentation on 31 March 2011 we said that "as we execute our strategy during 2011 we will be guided by the four Cs: conservative in our guidance; consistent in our production; contingency plans in place; and frequent communication with investors."

We have delivered on our communication strategy by the following actions:

- The CEO, CFO, Head of External Relations and I have maintained an on-going and active dialogue with institutional investors through a regular programme of meetings covering a wide range of issues.
- Dr Graham Birch, our Senior Independent Director, has provided an independent access point for our institutional shareholders to whom he is well known. During the year he met with several institutional investors to discuss governance, strategy and other issues that shareholders raised.
- Amongst others, presentations were made by the Executive Directors to investors at the HSBC Global Natural Resource Conference held in Singapore, the Troika Conference held in Russia, the BMO Capital Markets Global Metals and Mining Conference held in Florida, USA and at the Deutsche Bank BRICS Metals & Mining Conference held in London. The Executive Directors also attended other similar investor conferences in Barcelona, Moscow and London to meet with shareholders.
- A workshop presentation was made to analysts and investors on the POX hub project in June 2011.
- Presentations and conference calls were held for investors and analysts following the Company's preliminary and interim results announcements and production updates.
- The Remuneration Committee Chairman and Company Secretary also entered into a dialogue with some of our institutional shareholders and corporate governance bodies regarding remuneration issues.

Copies of the presentations made to shareholders can be found on our website at www.petropavlovsk.net. Our website is regularly updated and contains a wide range of information about the Group and we welcome comments and observations from our shareholders on its content. I ensure that the views of our shareholders are communicated to the Board as a whole.

We encourage as many shareholders as possible to attend the Annual General Meeting and shareholders are given the opportunity to discuss any issues of interest or concern, including performance, governance or strategy with the Directors. At the Company's 2012 Annual General Meeting, Sir Malcolm Field, Chairman of the Audit and Remuneration Committees, Sir Roderic Lyne, Chairman of the HSE Committee and Lord Guthrie, Chairman of the Risk Committee will be available to answer any matters relating to those committees. I will, of course, be happy to answer any questions relating to the work of the Nomination Committee. As usual, all Board Directors who are able to attend will be available to meet with investors after the meeting to discuss issues with shareholders.

Annual re-election of Directors
The Company's Articles require a Director to stand for re-election at the first Annual General Meeting following his appointment and at least once every three years thereafter. However, in accordance with the requirements of the Code, all of the Directors will submit themselves for annual re-election at each Annual General Meeting. Directors may be appointed by shareholders by ordinary resolution or by the Board on the recommendation of the Nomination Committee and must then stand for re-election at the next Annual General Meeting where they may be re-elected by ordinary resolution of the shareholders.

The re-election of each of the Directors has been reviewed by the Nomination Committee. The Board recommends that shareholders vote in favour of the resolutions to elect or re-elect all of the Directors of the Company and the reasons for this recommendation are set out in the Letter with the Notice of the Meeting.

You should be aware that I as Chairman am also a non-executive director of Tynda Forest Holdings Limited (formerly Russian Timber Group), non-executive chairman of Sundeala Limited, Peter Hambro Limited and Tidal Transit Limited, which are all family companies, and I am a partner in Durrington Farm Partnership. I am a director of various subsidiaries of the Group. Any changes to these commitments are reported to the Board. I am informed that the Board is satisfied that my other significant commitments do not restrict me from carrying out my duties effectively.

The following section of this Corporate Governance Report provides further explanation of the Company's Board and Committee structure.

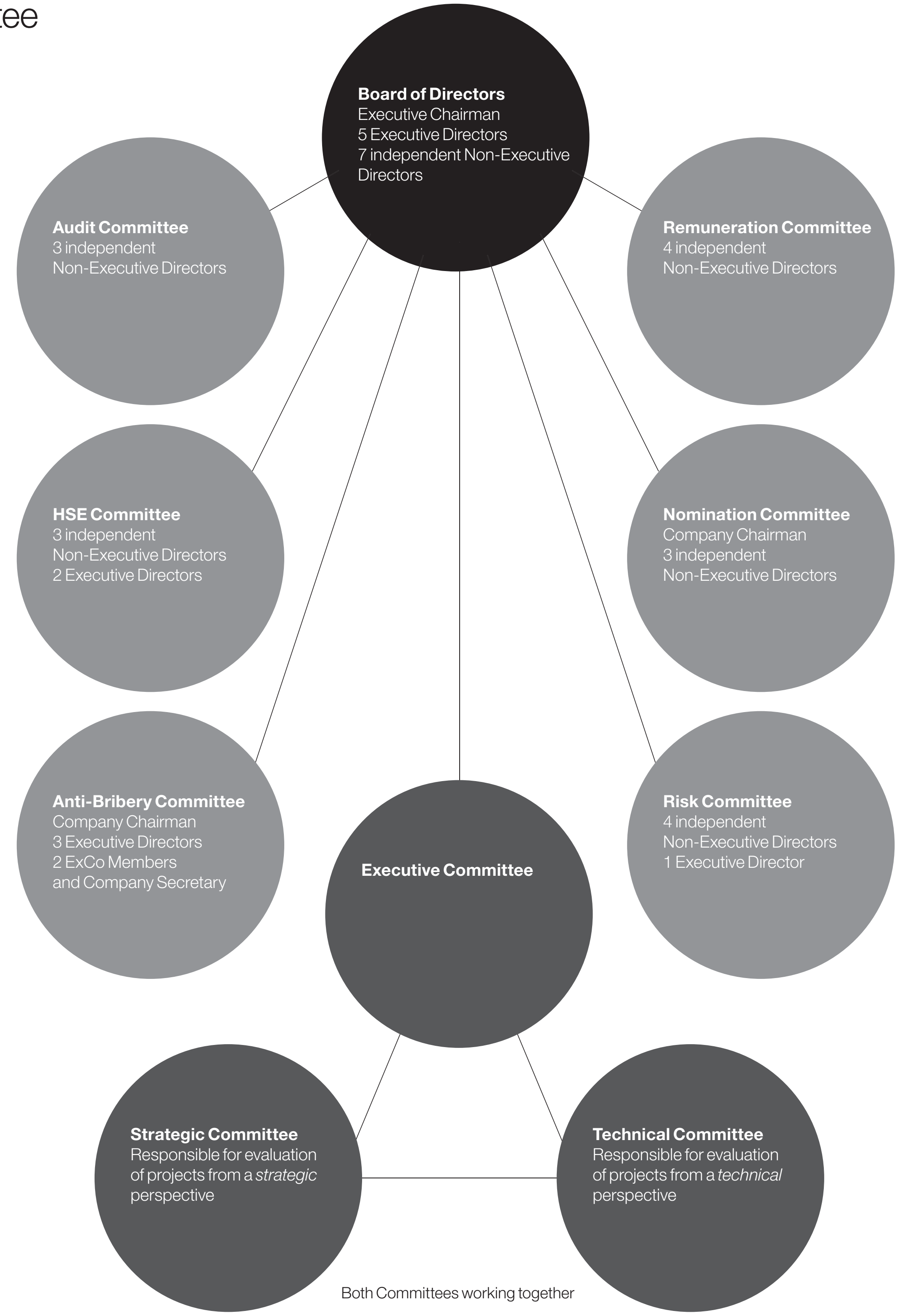
Peter Hambro
Chairman
27 March 2012

Biographical details of all Directors, except Ms English are included on pages 88 to 89

Biographical details of Ms English are provided on page 92

Board and Committee structure

Each Committee has written terms of reference which have been approved by the Board and are reviewed at least annually to ensure that they comply with the latest legal and regulatory requirements and reflect best practice developments.
The current full terms of reference of each Committee may be obtained from the Investor section of the Company's website at www.petropavlovsk.net or from the Company Secretary.



Note: the composition of the Board of Directors is shown following the appointment of Ms English as a Non-Executive Director with effect from 28 March 2012.

Board and committee membership and attendance during the year
Board and Committee membership and attendance at meetings during the year is shown in the table below:

Key: C= Chairman, M= Member

	Board			Audit		Remuneration		Nomination		HSE		Risk	
		Scheduled	Review of strategy										
Mr Peter Hambro[7]	C	6/6	1/1	–	–	–	–	C	3/3	–	5	–	6/6
Dr Pavel Maslovskiy[7,8]	M	6/6	1/1	–	–	–	–	–	–	–	5	–	3
Mr Brian Egan[7]	M	6/6	1/1	–	–	–	–	–	–	–	2	–	5
Mr Andrey Maruta[3]	M	6/6	1/1	–	–	–	–	–	–	–	–	–	–
Dr Alfiya Samokhavlova[3,4,7]	M	6/6	1/1	–	–	–	–	–	–	M	5/5	–	3
Mr Martin Smith[3,4,5]	M	6/6	1/1	–	–	–	–	–	–	M	5/5	M	5/5
Dr Graham Birch[1]	M	6/6	1/1	M	4/4	–	–	M	3/3	–	–	M	6/6
Sir Malcolm Field[1]	M	6/6	1/1	C	4/4	C	3/3	M	3/3	–	–	–	–
Lord Guthrie[1]	M	6/6	1/1	–	–	M	3/3	–	–	M	5/5	C	6/6
Sir Roderic Lyne[1]	M	6/6	1/1	–	–	M	3/3	–	–	C	5/5	M	6/6
Mr Charles McVeigh III[1]	M	6/6	1/1	M	4/4	–	–	M	3/3	–	–	–	–
Dr David Humphreys[1,6,7]	M	2/2	1/1	–	–	–	–	–	–	–	2	–	2
Mr Peter Hill-Wood[1,2]	M	2/3	N/A	M	1/1	–	–	M	0/1	M	1/2	M	1/3

1 Considered an independent Director under the Code.
2 Retired as a Director and as a member of the Audit, Nomination HSE and Risk Committees on 19 May 2011.
3 Appointed as a Director on 4 January 2011.
4 Appointed as a member of the HSE Committee on 9 February 2011.
5 Appointed as a member of the Risk Committee on 9 February 2011.
6 Appointed as a Director on 24 August 2011.
7 Directors who were not members of these Committees attended meetings at the invitation of the Chairman of that Committee.
8 Dr Maslovskiy resigned as a Director of the Company on 20 December 2011. Mr Ermolenko was appointed as a Director on 20 December 2011.

As illustrated above, Directors who are not members of the Audit, Remuneration, HSE and Risk Committee meetings may attend by invitation of the relevant Committee Chairman.

Dr Humphreys was appointed as a member of the Remuneration, HSE and Risk Committees with effect from 1 January 2012.

The Board and the Nomination Committee keep the membership of committees under review to ensure gradual refreshing of skills and experience.

Board
For further information see pages 99 to 102.

Audit, Remuneration and Risk Committees
Reports from each of the Chairman of the Audit, Remuneration and Risk Committees can be found on pages 121 to 124, 108 to 120 and 76 to 87 respectively.

Nomination Committee
For information on the work of the Committee during the year see pages 100 and 102.

Health, Safety and Environmental Committee ("HSE Committee")
Sir Roderic Lyne is Chairman of the HSE Committee. The Committee currently comprises three Non-Executive Directors and two Executive Directors. During 2011, membership of the Committee was as follows:

Member	
Sir Roderic Lyne	
Lord Guthrie	
Peter Hill-Wood	Retired 19 May 2011
Martin Smith	Appointed 9 February 2011
Alfiya Samokhvalova	Appointed 9 February 2011

Dr David Humphreys was appointed as a member of the Committee on 1 January 2012, having attended two meetings of the Committee during the year by invitation and as part of his induction programme following his appointment as a Non-Executive Director of the Company in August 2011.

This Committee is responsible for establishing and reviewing the Group's health, safety environmental and community relations ("Sustainability") strategy, evaluating the effectiveness of the Group's policies and systems for managing Sustainability issues and risks, and assessing the performance of the Group with regard to the impact of Sustainability decisions and actions.

The Group manages its operations in accordance with its licence terms and conditions and the legislation of the Russian Federation governing health and safety, labour and environmental protection, including the Russian Labour Code. In addition, the Group is aligning itself with international standards of codes of practice, as set out in its Values and Commitments statement, as detailed in the Sustainability Report 2011.

For further information on the Company's HSE Committee and the Group's sustainability policies, see page 22 of this Report and the Sustainability Report 2011, which includes a statement from Sir Roderic Lyne as Chairman of the HSE Committee.

The Executive Committee
The Executive Committee comprises the Chairman, the five Executive Directors and the following four members of senior management:

- Dmitri Chekashkin, Group Head, Precious Metals Operations & First Deputy of General Director of Management Company Petropavlovsk (Russia)
- Alexei Maslovskiy, Business Development Manager
- Anna-Karolina Subczynska, Group Head of Legal Affairs
- Andrei Tarasov, Deputy General Director of "MC Petropavlovsk"

The Strategic and Technical Committees
Further information on these Committees is available on pages 102 and 105 of this Report.

Directors' Remuneration Report

For the year ended 31 December 2011

Dear shareholder

As Chairman of the Remuneration Committee (the "Committee"), I am pleased to present, on behalf of the Board, the Directors' Remuneration Report for 2011.

Sir Malcolm Field
Chairman of the Remuneration Committee

An ordinary resolution to approve this report will be put to members at this year's Annual General Meeting, but the Directors' remuneration is not conditional upon the resolution being passed. Deloitte LLP have audited the tables of Directors' remuneration and associated footnotes on page 119 of this report and the table of awards to Directors under the LTIP on page 115 of this report as required by law.

Introduction

2011 was a strong year for the Group, with record gold production of 630,100oz. The Group also saw the commissioning of its fourth mine, Albyn, ahead of schedule, the expansion of the Malomir mine, a strong uplift in the Group's reserves and resources and increased operational efficiencies. These were achieved as a result of strong executive leadership, an experienced management team and the commitment of our employees. The Company's remuneration policy is to ensure that a significant part of the Executive Directors' remuneration is variable and is therefore determined by the Group's success, thus aligning their interests with those of our shareholders. The Committee believes that, given the delivery of the Group's robust performance during 2011 against a background of economic instability and tough inflationary pressures in the mining sector our executives have been appropriately rewarded. In forming its view, the Committee has taken the difficult economic environment into account. This report explains how and what was paid to the Executive Directors of Petropavlovsk during 2011, proposed remuneration arrangements for 2012, the reasons for this Committee's decisions and how the Company's remuneration policy is aligned with the short and long-term goals and strategy of the Company.

During 2011, Lord Guthrie, Sir Roderic Lyne and Mr Peter Hill-Wood were my colleagues on the Committee. Mr Peter Hill-Wood stepped down from the Committee on 19 May 2011 and I would like to extend my thanks to Peter for his considerable contribution to the Committee. I was pleased to welcome Dr David Humphreys to the Committee with effect from 1 January 2012. David has attended meetings of the Committee, by invitation, since his appointment as a Non-Executive Director in August 2011 as part of his induction programme.

Members of the Remuneration Committee

Director
Sir Malcolm Field, Chairman of the Remuneration Committee
Lord Guthrie
Sir Roderic Lyne
Peter Hill-Wood, resigned as a member of the Committee on 19 May 2011
David Humphreys, appointed as a member of the Committee on 1 January 2012

We held four meetings during the year under review. The Company Chairman has attended part of these meetings, at my invitation, to provide advice on specific questions raised by the Committee and on matters relating to the performance and remuneration of the Executive Directors and members of the Executive Committee, although he was not in attendance during any discussions relating to his own remuneration. The Company Secretary has attended each meeting as Secretary to the Committee. Kepler Associates has provided advice to the Committee during the year. Kepler Associates was appointed by the Committee and does not provide advice to the Company in any other capacity.

Role of the Committee
Our principal role is to recommend to the Board the framework and policy for the remuneration of the Company's Chairman, the Executive Directors, any newly appointed Executive Director, the Company Secretary and members of the Executive Committee. In addition, and in consultation with the Chairman and Chief Executive Officer as appropriate, the Committee is responsible for reviewing the total individual remuneration package of each Executive Director and for reviewing annually proposals for the Executive Committee members.

Specific areas of focus during the year
In addition to the normal duties undertaken by the Committee during the year, as detailed below, the Committee considered and reviewed the revised 'Principles of Remuneration' issued by the Association of British Insurers and the consultations undertaken by the Department of Business Innovation and Skills on 'Executive Remuneration' and 'The future of narrative reporting'. In preparing our Remuneration Report, we have paid attention to the issues raised in these reports and have, where possible, provided full details of objectives set and targets achieved, whilst ensuring that any commercially sensitive information is not compromised.

During 2011 we also considered the following matters:

1. Approval of the 2010 remuneration report;
2. Approval of the grant of the 2011 Awards under the Company's Long-Term Incentive Plan ("LTIP") and consideration of the performance conditions;
3. Review of the new performance condition structure to be applied to the 2012 grant of Awards under the Company's LTIP;
4. Review and approval of 2012 bonus objective targets;
5. Review of the achievement of 2011 bonus objectives and approval of bonus payments;
6. Release of the Chairman's and Chief Executive Officer's deferred 2010 bonus previously withheld under the Company's 'clawback' provisions;
7. Annual salary review of the Executive Directors and the Chairman for 2012; and
8. Review of Mr Ermolenko's total remuneration upon his appointment as Chief Executive Officer.

Further details of the above are provided in this Report.

Remuneration policy
The Committee recognises that the Company's high-calibre Executive Committee is key to delivering the Group's strategy to grow through exploration and new scientific technologies e.g. the POX hub and the flotation lines. The Group's remuneration policy is therefore designed to provide remuneration packages to retain and motivate these high-calibre executives and to attract new talent as required. The Company's policy was unchanged from 2010, with a substantial proportion of the remuneration of the Executive Directors and senior management intended to be performance-related. The Committee's expectation is that the split between performance-based pay and fixed pay would be approximately 60%/40%. The Committee believes that the Company's policy reinforces effective risk management by aligning Executive Directors' interests with the long-term interests of shareholders through regular awards of performance shares vesting only on the satisfaction of challenging long-term performance conditions, with the vesting of performance shares also underpinned by Committee discretion. The Committee also has discretion to withhold or defer annual bonus payments if thought appropriate. During 2012 the Committee will continue to monitor the remuneration policy's alignment with the Group's business priorities and objectives, whilst ensuring that our remuneration framework continues to motivate, reward and retain our senior management in order to deliver the Company's strategy. The Chairman's salary and bonus are reviewed annually by the Committee, in accordance with the Board's policy on Executive Directors' remuneration.

The key remuneration components for Executive Directors and senior management are:

A Basic annual salary and benefits;

B Performance-based annual bonus payments; and

C Long-term incentives.

Full Terms of Reference of the Committee are available on the Company's website at www.petropavlovsk.net or from the Company Secretary

A Basic annual salary and benefits

(i) Basic annual salary review
Following the Board changes announced during December 2011, the Committee undertook its annual review of basic salaries of the Executive Directors. During this review the Committee took into consideration the following matters:

- Changes in the role and increased responsibility of each of the Executive Directors following the appointment of Mr Sergey Ermolenko as the Chief Executive Officer on 20 December 2011 to replace Dr Pavel Maslovskiy, the Company's long standing Chief Executive Officer;
- The Group's strong performance during 2011;
- The individual performance of each Executive Director during 2011 and their experience and potential;
- Market competitiveness;
- 2012 salary increases across the wider employee population which were broadly in line with Russian inflation other than in exceptional circumstances where there has been a significant increase in responsibilities; and
- The current climate and pressures surrounding executive remuneration.

In addition and, as a point of reference only, the Committee reviewed industry average levels for comparable roles in similar companies in terms of market sector, location, business complexity and size.

Taking all of the above factors into consideration, the Committee approved the increases in basic annual salary as detailed in the table below with effect from 1 January 2012:

Mr Sergey Ermolenko was appointed to replace Dr Pavel Maslovskiy who resigned as a Director and Chief Executive Officer on 20 December 2011 following his appointment as a Senator and Member of the Federation Council of Russia (Upper House of the Russian Parliament). Mr Ermolenko, a founding shareholder, has been General Director of Management Company Petropavlovsk (the Group's main operating company in Russia) since its inception. Mr Ermolenko's role is undertaken predominantly in Moscow and Blagoveschensk. In order that the Company could retain the benefit of Dr Maslovskiy's knowledge and experience, the Board has conferred on him the title of Honorary President. Dr Maslovskiy is invited to attend Board and Committee meetings although he does not have a right to vote at these meetings. Dr Maslovskiy does not receive any remuneration from the Company.

The Committee has awarded salary increases of 17% to Mr Smith, Dr Samokhvalova and Mr Maruta to reflect both a general inflationary increase (5%) and an increase (12%) to reflect their increased responsibilities.

- Mr Martin Smith was promoted to the position of Deputy Chief Executive on 20 December 2011, supporting our new CEO in the development and implementation of the Group's strategic plans and policies. A role he is now undertaking in addition to his responsibilities as Technical Director. A schedule detailing the roles and responsibilities of the Chief Executive Officer and the Deputy Chief Executive Officer is available on the Company's website at www.petropavlovsk.net

Director	Position	Salary as at 31 December 2011[1]	Salary as at 1 January 2012	Salary as at 14 April 2012[3]	% increase/ (decrease)[5]
Peter Hambro	Chairman	£624,000	£655,000	£655,000	5
Sergey Ermolenko	Chief Executive Officer	£400,000[2]	£400,000	£400,000	N/A
Brian Egan[4]	Chief Financial Officer	£364,000	£380,000	-	4
Andrey Maruta[3]	Finance Director – Russia	£325,000[3]	£380,000	£380,000	17
Alfiya Samokhvalova	Strategic Director/Head of External Communications	£325,000[3]	£380,000	£380,000	17
Martin Smith	Deputy CEO/Technical Director	£325,000[3]	£380,000	£380,000	17
Total		£2,363,000	£2,575,000	£2,195,000	(15)

1 As at the date of his resignation as a Director and Chief Executive Officer on 20 December 2011, Dr Maslovskiy's annual basic salary was £624,000. Prior to his resignation and the appointment of Mr Ermolenko the total annual basic salary payable to the Executive Directors was £2,587,000. The maximum annual bonus potential payable to Mr Ermolenko for the year ending 31 December 2012 is 100% of annual basic salary compared to 150% for Dr Maslovskiy in respect of the year ended 31 December 2011.

2 Salary at date of appointment of 20 December 2011.

3 Salary at date of appointment of 4 January 2011.

4 Mr Egan will resign as a Director and as Chief Financial Officer with effect from 13 April 2012. Mr Maruta will be promoted to the position of Chief Financial Officer following Mr Egan's resignation, a role he will undertake in addition to his current responsibilities as Finance Director – Russia. There will be no further change in his salary in 2012.

5 The percentage increase numbers provided for each individual Director refer to the increase in annual basic salary from 1 January 2012. No Director has received an increase in annual basic salary since 1 January 2012. The decrease of 15% for 'Total' executive basic annual salary provided in the table relates to the decrease from 14 April 2012, compared with 1 January 2012.

- Mr Andrey Maruta, Finance Director – Russia has assumed responsibility for the financial analysis of the Group's individual mining plans and addressing financial and funding issues to ensure that the Group can deliver on its five year strategic plan, both critical elements to the Group's continuing success. In addition, Mr Maruta will be appointed as Chief Financial Officer following Mr Egan's resignation as a Director on 13 April 2012. The Committee does not intend to review Mr Maruta's remuneration following his promotion.
- Dr Alya Samokhvalova has a wider remit in terms of her roles as both Strategic Director and as Group Head of External Communications as a result of the above changes. This includes a central role in the delivery of the POX project and its communication to shareholders; the delivery of this project is essential to the future success of the Group.

(ii) Pensions and other benefits

All Executive Directors and employees (on UK contracts) are invited to participate in the Company's defined contribution pension scheme whereby the Company currently contributes between 5% and 12.5% of salary and the individual contributes 3% of basic salary, subject to certain exceptions. Details of amounts paid to Directors are set out in the table on page 119 of this report. The Committee does not anticipate proposing changes to the pension policy and arrangements in 2012. Mr Hambro does not participate in the Group's defined contribution scheme. Dr Maslovskiy did not have a pension arrangement with the Company during his appointment as Chief Executive Officer neither does Mr Ermolenko have any such arrangement.

Other benefits include medical insurance, professional fees, death in service benefits, ill health benefits, accommodation allowances and expenses where applicable.

B Annual Bonus

The Company has an annual bonus scheme in order to:

- Incentivise staff to achieve and where possible to surpass targets set by management
- Strengthen morale
- Engender loyalty

Executive Directors are eligible to receive annual bonus awards under which discretionary payments may be made based on the achievement of specific pre-determined objectives.

The annual bonus for 2011 was capped at 150% of base salary for the Chairman and Chief Executive Officer and 100% for the other four Executive Directors. 70% of the maximum bonus payable was based on the achievement of Group targets with the remaining 30% based on the achievement of personal targets. The objectives for the 2011 annual bonus awards comprised strategic, operational and HSE targets and focused on the Group's priorities for 2011 and delivery of the overall business strategy.

The objectives applicable for the year ended 31 December 2011 and the performance against them are summarised in the table below. The table also identifies how these objectives align with the Company's long-term strategy and reinforce the delivery of our strategy for 2011 being guided by the Board's previous commitment to shareholders to be 'Conservative in our guidance', 'Consistent in our production' and 'Communicate frequently and effectively with investors'.

2011 Group objectives	Successful delivery of Group objectives	% of Group bonus element earned	Objectives align with the Company's long-term strategy and assist the Company in delivery on its strategy for 2011:
Increase in production and reduction in costs	Gold production exceeded the Group's full year production target by 30,100oz.	37%	*"Conservative in our guidance, consistent in our production".*
Development	Successful delivery of the expansion of Malomir commissioned in July 2011, and commissioning of the Group's fourth gold mine at Albyn in November 2011, both ahead of schedule.		
Exploration	Strong uplift in the Group's total JORC reserves and resources (before depletion). See Gold Reserves & Resources pages 66 to 75.	36%	*"To grow the Company through exploration & new technologies".*
Strategic & technical evaluation & disposals	Group exploration and development targets and projects evaluated. See Exploration Report pages 62 to 65. Successful disposal of non-core assets, see page 36.		
Management of balance sheet	Future cash funding requirements were met through negotiation of new bank facilities.		
HSE improvements	Lost Time Injury Frequency Rate was reduced by 30%. See Sustainability Report 2011.	5%	*"The Group aims to ensure that an excellent safety culture is embedded across its operations, creating safe working conditions and reducing accidents".*
Reporting, forecasting and communication	Improved reporting and forecasting has enabled the Company to communicate effectively to the market and with our shareholders.	14%	*"To communicate frequently and effectively with investors".*
Total		**92%**	

In addition 30% of the maximum bonus potential was subject to the achievement of three personal objectives for each Executive Director, with equal weighting. Each of the three personal objectives was specific to the duties and responsibilities of the individual Executive Director. Personal objectives for 2011 included targets on: operating efficiencies and cost savings; developing the Group's strategy; the successful delivery of projects; financing; and Group communications.

A bonus equivalent to 141.6% of annual basic salary for the Chairman and Chief Executive Officer and of 94.4% for the other Executive Directors was earned through the achievement of Group and personal objectives.
In assessing the bonus to be payable to the Chairman and to each of the Executive Directors, the Committee has also reviewed the overall relative success of the business and the extent to which the strategic objectives set by the Board are being met. Given the Group's strong performance in 2011, the Committee has approved the above payment. Details of bonuses paid are provided in the Table of Emoluments on page 119.

Deferral of 50% of 2010 annual bonus
As stated above, the Committee believes that any incentive compensation awarded to the Executive Directors and members of the Executive Committee should be tied to the interests of the Company's shareholders, and account is taken of the overall relative success of the business during the period concerned. Accordingly due to production difficulties experienced in 2010, even though these were experienced mainly through the late delivery of critical production equipment and despite this being beyond management's control, the Committee requested that 50% of the bonus payment due to the Chairman and Chief Executive Officer for the year ended 31 December 2010 was withheld until it became clear that some of the 2010 production shortfall had been made up. This was agreed by Mr Hambro and Dr Maslovskiy.

In accordance with the proposal detailed in the 2010 Directors' Remuneration Report, this matter was reviewed by the Committee during the year and as a result of the Group's strong production performance in 2011, the Committee approved the payment of the withheld bonus to Mr Hambro and Dr Maslovskiy in December 2011. An amount of £202,500 was therefore paid to each of Mr Hambro and Dr Maslovskiy in December 2011, representing the 50% element of the 2010 bonus that had been postponed. This bonus was included in the Table of Emoluments in the 2010 Directors' Remuneration Report.

Having carefully reviewed the targets to be applied for the 2012 bonus awards, the Committee has agreed that these will again constitute a mix of strategic, operational and HSE targets focused on the Group's priorities for 2012. The objectives for 2012 include targets on:

- Production and costs;
- Delivery of various construction and capital expenditure projects, including the POX hub project;
- Acquisitions and disposals;
- Exploration, reserves and resources;
- Cash management, reporting and forecasting; and
- HSE.

The full details of these bonus objectives are commercially sensitive. However, the Committee expects that full information of the objectives achieved will be contained in next year's Directors' Remuneration Report as has been provided in this Report for the 2011 bonus objectives.

Given the recent appointment of Mr Ermolenko as Chief Executive Officer, the promotion of Messrs Smith and Maruta, the increased responsibility of Dr Samokhvalova and the resignation of Mr Egan with effect from 13 April 2012, the Committee has decided that the maximum bonus payable for all of the Executive Directors for 2012 will be capped at 100% of annual basic salary to ensure that their interests are fully aligned. The maximum bonus potential for the Chairman will remain unchanged at 150% of basic annual salary.

C Long-Term Incentive Plan

Details of the LTIP

The Company continues to operate the Petropavlovsk Long-Term Incentive Plan ("LTIP"), approved by shareholders in 2009, which aligns the long-term interests of participants with those of our shareholders. The LTIP provides for the following types of share award (the "Awards"):

a) options with an exercise price per share not less than the market value of a share at the time of grant ("Options");

b) performance share awards, being awards delivering free shares granted as conditional awards or nil-cost options ("Performance Share Awards"); and

c) deferred bonus awards, being an award of shares in lieu of annual bonus and conditional upon continuing service ("Deferred Bonus Awards").

To date only Performance Share Awards have been granted under the LTIP and it is proposed that this will remain the case in 2012. Awards are made at the discretion of the Board on the recommendation of the Committee, or in the case of the Company's Executive Directors, at the discretion of the Committee up to a maximum of 200% of annual basic salary in any year. In exceptional circumstances, this limit may be exceeded provided that grant levels remain within a maximum approved by the Committee. At any time, the total number of shares, which have been issued or remain issuable pursuant to grants made over the last 10 years under the LTIP and under any other employees' share scheme established by the Company, may not exceed 10% of the shares in issue.

Awards under the LTIP vest three years from the date of grant and are subject to challenging, pre-set performance conditions determined by the Committee, having regard to market practice within the mining sector, and in the case of Awards granted to the Company's Executive Directors, relating to the overall performance of the Company. Performance conditions for Awards made during the year and in 2009 together with the proposal for 2012 Awards are detailed below. No Awards were made in 2010.

2011 LTIP Awards

During the year the Committee reviewed the performance conditions for the 2011 Awards. It was proposed that 100% of the shares subject to the Performance Share Award would vest subject to performance relevant to two TSR benchmarks, thereby aligning interests of participants with the long-term interests of shareholders. These performance conditions are detailed below.

The Committee considered recommendations for the 2011 awards to be made to the Executive Directors, members of the Executive Committee and a further 84 senior employees of the Group, the majority of whom are based in Russia. The Committee was pleased to recommend these Awards to a wider group of senior employees of the Group below Executive Committee level to give these individuals an opportunity to share in the Group's success and to further align their interests with those of our shareholders.

Performance conditions	Performance conditions align with the Company's long-term strategy
2011 LTIP Awards	
For awards granted in 2011, performance is measured against the following two elements over a three-year period from the date of grant:	*TSR aligns interest to shareholders. The use of relative TSR helps to ensure that the LTIP rewards long-term decisions and is not unduly sensitive to uncontrollable factors which impact on the entire sector (e.g. commodity prices).*
Total Shareholder Return vs the "Comparator Group" – (TSR condition 1) (70% of Award) – 100% vests at top decile – 50% vests at median – Straight-line basis between median and top decile – No vesting of Award if median performance not achieved	The relative TSR measure is dependent on the Company's long-term share price performance and dividend return compared with a selected peer group of listed international mining companies. Details of the Comparator Group are provided below. Full vesting at top decile TSR requires considerable outperformance.
Total Shareholder Return vs the FTSE 350 Mining Index – (TSR condition 2) (30% of Award) – 100% vests at median + 13.5% p.a. – 50% vests at median – Straight-line basis between median and median +13.5% p.a. – No vesting of award if median performance is not achieved	The relative TSR measure is dependent on the Company's long-term share price performance and dividend return compared with the FTSE 350 Mining Index.

In addition, vesting of the Performance Share Awards requires the Committee to be satisfied that:
– the performance achieved is a genuine reflection of the underlying financial performance of the Group;
– the Group has complied in all material respects with regulatory and licence requirements; and
– the Company has demonstrated good management of shareholder relations.

Comparator Group
African Barrick Gold Limited, Agnico-Eagle Mines Limited, Alamos Gold Inc., Eldorado Gold Corporation, European Goldfields Limited, Highland Gold Mining Limited, Kinross Gold Corporation, London Mining Plc, OJSC Polymetal, OJSC Polyus Gold, Rangold Resources Limited and Trans-Siberian Gold plc.

2009 LTIP Awards

For the LTIP Awards made in 2009, the Committee approved the following performance conditions:

Performance conditions	Performance conditions align with the Company's long-term strategy
2009 LTIP Awards	
For awards granted in 2009 performance is measured against the following two elements over a three-year period from the date of grant until 30 June 2012:	*TSR and Operating Performance Conditions reflect both relative and absolute measures of performance, aligning interests of the participants with those of the Company's shareholders. The Operating Performance Conditions reinforce the Company's overall strategy.*
Total Shareholder Return ("TSR") vs the 'Comparator Group' (50% of Award) – 100% vests at top decile – 50% vests at median – Straight-line basis between median and top decile – No vesting of award if median performance not achieved	The relative TSR measure is dependent on the Company's long-term share price performance and dividend return compared with a selected peer group of listed international mining companies. Details of the Comparator Group are provided below.
Operating conditions (50% of Award) Vesting will depend on the achievement of operating conditions relating to: – acquisition and development of new high-quality resources; – successful construction and development of existing assets; – meeting and exceeding budgeted production targets; – operating safe and efficient mining operations; and – strong operating cost control throughout the business	The operating conditions (which are commercially sensitive and will be disclosed in full in next year's Directors' Remuneration Report) are essential to the delivery of the Group's strategy.
In addition, vesting of the Performance Share Awards requires the Committee to be satisfied that: – the performance achieved is a genuine reflection of the underlying financial performance of the Group; – the Group has complied in all material respects with regulatory and licence requirements; and – the Company has demonstrated good management of shareholder relations.	
Comparator Group Agnico-Eagle Mines Limited, Alamos Gold Inc., Anglo Gold Ashanti Limited, Atlas Iron Limited, Barrick Gold Corporation, Compañía de Minas Buenaventura S.A.A., Coeur d'Alene Mines Corporation, Eldorado Gold Corporation, Ferrexpo plc, Gindalbie Metals Limited, Goldfields Limited, Goldcorp Inc., Highland Gold Mining Limited, Hochschild Mining plc, IAMGOLD Corporation, Kinross Gold Corporation, London Mining Plc, Murchison Metals Limited, Newmont Mining Corporation, OJSC Polymetal, OJSC Polyus Gold and Trans-Siberian Gold plc.	

The Directors' interests under the LTIP are as follows:

Director	Number of Petropavlovsk Ordinary Shares subject to Awards	Normal vesting dates	Awards granted during the year [3]	Awards vested during the year	Lapsed during the year	Number of Petropavlovsk Ordinary Shares subject to Awards
	As at 1 January 2011					As at 31 December 2011
Peter Hambro	–	11 May 2014 [2]	147,083			147,083
Pavel Maslovskiy	–	11 May 2014 [2]	147,083	29,926 [5]	117,157 [5]	Nil
Sergey Ermolenko	–	11 May 2014 [2]	17,433 [4]			17,433
Brian Egan	58,333	25 June 2012 [1]	–			58,333
	–	11 May 2014 [2]	85,798			85,798
Martin Smith	41,666	25 June 2012 [1]	–			41,666
	–	11 May 2014 [2]	76,605			76,605
Andrey Maruta	41,666	25 June 2012 [1]	–			41,666
	–	11 May 2014 [2]	76,605			76,605
Alfiya Samokhvalova	41,666	25 June 2012 [1]	–			41,666
	–	11 May 2014 [2]	76,605			76,605

The contents of this table and the table on page 119, analysing the Chairman and Directors' remuneration, constitute the audited information within this report.

1 *An Award was granted by the trustees of the Company's employee benefit trust under the Petropavlovsk Long-Term Incentive Plan, in the form of a conditional allocation of Petropavlovsk Ordinary Shares, for the benefit of the participant and their family. Vesting is subject to the satisfaction of performance conditions (as set out above) and continued employment.*

2 *Vesting is subject to the satisfaction of performance conditions (as set out above) and continued employment.*

3 *Awards for 2011 were made in respect of 200% of annual salary for the above participants based on a share price at date of grant of £8.485. No payment is required for the grant of an Award.*

4 *Mr Ermolenko's 2011 Award was in respect of c. £150,000. Following Mr Ermolenko's appointment as a Director of the Company it is intended that Mr Ermolenko will be granted a LTIP Award in 2012 in respect of 200% of his annual salary.*

5 *Following his resignation as a Director and Chief Executive Officer on 20 December 2011, Dr Maslovskiy was appointed as Honorary President of the Company. In this capacity Dr Maslovskiy is invited to attend Board meetings, although he is not entitled to vote at those meetings, and he supports the Company in an advisory role for which he receives no remuneration. The Committee has therefore used its discretion as permitted under the Rules of the LTIP to allow part of Dr Maslovskiy's LTIP Award to vest. Accordingly Dr Maslovskiy's Award vested subject to time pro-rating on the date of his resignation as a Director on 20 December 2011 with the remaining shares granted under the Award lapsing on that date. The amount of the Award that vested represented approximately 22% of the Award representing a period of 8 months from date of Award to vesting, with the normal vesting period being 36 months. The market value of the shares on the date of vesting was £6.50. Accordingly the value of the vested Award was £194,519.*

Additional information on the operation of the LTIP

The Committee may increase the number of shares subject to the Award to reflect the value of any distribution which would have been paid on the shares subject to the Award between the date the Award was made and the date on which shares are received by the participant.

Awards shall become exercisable or immediately vest (as the case may be) if an awardholder ceases to be employed by the Group by reason of his death, injury, ill-health, disability, redundancy, retirement, in the event of a takeover, change of control or winding-up of the Company or for any other reason which the Committee in its absolute discretion permits. In the case of Options or Performance Share Awards, such Awards will become exercisable or immediately vest (as the case may be) based on the extent to which the Committee determines that the performance conditions have been met or are likely to be met. The number of shares subject to all relevant Awards shall be pro-rated down to reflect the reduced service period. In the event of a takeover/ change of control, Awards may, by agreement with the acquiring company, be exchanged for Awards over shares in the acquiring company. In the event of an internal re-organisation of the Company, all Awards will be automatically exchanged for equivalent Awards subject to the terms of the LTIP over an appropriate number of new securities. If an awardholder ceases employment for any other reason prior to his Award vesting or becoming exercisable, his Award will lapse immediately on cessation of employment.

2012 LTIP Awards

During 2011, the Committee consulted with some of the Company's institutional shareholders and a number of the corporate governance bodies regarding the LTIP performance conditions. During the consultation, concerns were raised by a few shareholders that, in their view, the level of vesting of 50% for median performance for the TSR performance conditions was relatively high. In considering the proposed performance structure to be used for the 2012 LTIP Awards, as detailed below, the Committee has taken into consideration the concerns of some of the Company's shareholders in this respect.

Given the recent growth of the Group to a more complex multi-mine operator and the need to ensure the performance conditions of any Awards remain aligned with those of our Shareholders the Committee has undertaken a review of the performance conditions for the 2012 Awards. Following this review, the Committee has determined that the performance condition governing the 2012 Awards granted under the LTIP will be revised to be based 50% on earnings per share ("EPS"), 30% on reserves and resources and 20% on relative TSR. The Committee believes that linking vesting of Awards to a combination of three measures will improve the LTIP's robustness, make it more motivational for participants and continue to help align executive and shareholder interests. Maintaining relative TSR preserves alignment with shareholders, whilst EPS is considered by the Board to be one of the most important measures of Petropavlovsk's financial performance. Ensuring that the Group, at a minimum, maintains its current level of Reserves and Resources is critical to the future success of the Company. All three measures are highly visible internally and are regularly monitored and reported.

EPS-based awards will vest based on the Company's average EPS over the three-year performance period. The Committee is aware that the basis for the EPS targets, average nominal $EPS, is different to that used by many UK-listed companies who express long-term incentive EPS targets on the basis of three-year real growth targets. However, the Committee believes that average nominal targets are more appropriate for Petropavlovsk, as they capture performance in each year of the performance period, and Petropavlovsk profits are not significantly influenced by UK retail price inflation and are generated to a large degree outside the UK. The relative TSR measure is dependent on the Company's long-term share price performance and dividend return compared with the FTSE 350 Mining Index.

Level of vesting

The table below details the actual target to be achieved and the level of vesting that applies on attainment of each target.

The Committee believes that the performance necessary for awards to vest towards the upper end of these ranges is stretching. They should not, therefore, be interpreted as providing guidance on the Group's expected performance over the relevant period.

External appointments

The Board believes that the appointment of any Director as a non-executive director of another company can broaden their experience and knowledge, to the benefit of the Group. Accordingly, Executive Directors are permitted to take up a position on the boards of other companies, subject to the prior approval of the Board. Any fee earned in relation to outside appointments may be retained by the Executive Director. None of the Executive Directors held any such external directorships during the year.

50% of Award subject to: Average EPS target		30% of Award subject to: reserves and resources target		20% of Award subject to: relative TSR target	
% of total award that would vest	Target to be achieved	% of total award that would vest	Target to be achieved	% of total award that would vest	Target to be achieved
Nil	Less than $1.50	Nil	If net mining depletion of 2.0m/oz not replenished	Nil	Less than median
15%	$1.50*	15%	If net mining depletion of 2.0m/oz replenished*	6%	Median*
50%	$1.90*	30%	If net mining depletion of 2.5m/oz or more replenished*	20%	Median +13.5%*

** Vesting will be on a straight-line basis between these levels.*

Non-Executive Directors' remuneration

Board policy

Fees for Non-Executive Directors are reviewed annually and are approved by the Board as a whole on the recommendation of the Chairman. The Board is conscious that, just as the Group must set remuneration levels to attract and retain high-calibre executives, it must also ensure that remuneration rates for Non-Executive Directors are set at a level that will attract the calibre of Director necessary to contribute to an effective and high-performing Board and reflect the responsibilities and time spent by the Directors on matters relating to the Company.

The level of Non-Executive Director fees are reviewed by the Board, in the absence of the Non-Executive Directors on an annual basis. However, no increase had been approved since 25 June 2009 following the Company's listing on the Main Market of the London Stock Exchange and its acquisition of Aricom Plc. Following a review in December 2011, the Board approved an increase for Non-Executive fees of approximately 5% with effect from 1 January 2012. Non-Executive Directors receive no other benefits (other than the reimbursement of expenses incurred in respect of their duties as Directors of the Company).

Non-Executive Directors do not participate in discussions relating to their own fees.

Dr Graham Birch is the Company's Senior Independent Director.

Sir Malcolm Field is Chairman of the Audit Committee and the Remuneration Committee.

Details of the fees paid to Non-Executive Directors in respect of the year ended 31 December 2011 are set out on page 119 of this report.

No consideration was paid to or became receivable by third parties for making available the services of any person as a Director of the Company during the year to 31 December 2011 (2010: nil).

Executive Directors

Each of the Executive Directors has a service contract with the Company. It is the Group's policy that Executive Directors' service contracts have no fixed term, but are capable of termination giving a maximum of 12 months' notice. There are no provisions in any of the Executive Directors' appointment arrangements for compensation payable on early termination of their directorship. The appointments can be terminated by paying in lieu of the notice period with such pay in lieu being limited to the Executive Director's basic salary only. The Company has the right to "clawback" this payment and/or make the payment in monthly instalments in the event that the Director finds alternative employment and mitigates his loss.

Non-Executive Directors

Non-Executive Directors, who are appointed for an initial term of three years, have formal letters of appointment setting out their duties and responsibilities. These letters are available for inspection at the Company's registered office and at the Annual General Meeting.

There are no provisions in any of the current Non-Executive Directors' appointment arrangements for compensation payable on early termination of their directorship. The appointments can be terminated by paying in lieu of the notice period with such pay in lieu being limited to the Non-Executive Director's basic fee only.

Directors' letters of appointment and service contracts are available for inspection at the Company's registered office and at the Annual General Meeting.

Each Director is subject to re-election at the first Annual General Meeting following his or her appointment by the Board and this will apply to Mr Sergey Ermolenko and Dr David Humphreys. In addition, in accordance with the provision in the UK Corporate Governance Code, all eligible Directors will stand for re-election at this year's Annual General Meeting.

Non-Executive fees effective 1 January 2012:

Graham Birch [1]	£94,600
Sir Malcolm Field [2]	£94,600
Lord Guthrie	£92,000
Sir Roderic Lyne	£92,000
Charles McVeigh	£92,000
David Humphreys	£92,000

1 Dr Birch is the Company's Senior Independent Director.

2 Sir Malcolm Field is Chairman of the Audit and the Remuneration Committee.

Notice periods for Directors are as follows:

	Date of Contract	Notice period
Executive Directors		
Peter Hambro	1 September 2009	12 months
Brian Egan	21 April 2009	12 months
Alfiya Samokhvalova	4 January 2011	12 months
Andrey Maruta	4 January 2011	12 months
Martin Smith	4 January 2011	12 months
Sergey Ermolenko	20 December 2011	12 months
Non-Executive Directors		
Graham Birch	12 February 2010	3 months
Sir Malcolm Field	21 April 2009	3 months
Lord Guthrie	21 April 2009	3 months
Sir Roderic Lyne	21 April 2009	3 months
Charles McVeigh	25 June 2009	3 months
David Humphreys	24 August 2011	3 months

Table of emoluments

Aggregate Directors' remuneration

The total amounts for Directors' remuneration were as follows:

	2011 £'000	**2011 US$'000** [1]	2010 £'000	2010 US$'000 [1]
Emoluments	**3,188**	**5,096**	2,090	3,232
Contributions to personal pensions	**167**	**268**	44	67
Other benefits	**28**	**45**	22	33
Bonus payments	**3,031**	**4,846**	967	1,495
Total [2]	**6,414**	**10,255**	3,123	4,827

1 Rates of exchange used: 2011: £0.625:US$1; 2010: £0.65:US$1 (average exchange rate throughout the year).

2 The aggregate remuneration for 2010 and 2011 relates to Directors who were in office during the year.

The following table sets out an analysis of the Chairman and Directors' remuneration for the year ended 31 December 2011:

	Basic salary/fees £	Other fees £	Year end bonus £	Expenses [9] £	Pension [8] £	Total 2011 £	Total 2011 US$ [1]	Total 2010 £	Total 2010 US$ [1]
Executive Directors									
Peter Hambro	**624,000**	**-**	**883,584**	**-**	**-**	**1,507,584**	**2,410,325**	1,005,000	1,553,228
Pavel Maslovskiy [2]	**624,000**	**61,606**	**883,584**	**-**	**-**	**1,569,190**	**2,508,820**	1,025,991	1,585,669
Sergey Ermolenko [3]	**10,959**	**-**	**-**	**-**	**-**	**10,959**	**17,521**	-	-
Brian Egan	**364,000**	**-**	**343,616**	**18,975**	**45,500**	**772,091**	**1,234,419**	572,965	885,517
Andrey Maruta [4]	**325,000**	**-**	**306,800**	**2,316**	**40,625**	**674,741**	**1,078,776**	-	-
Alfiya Samokhvalova [4]	**325,000**	**-**	**306,800**	**1,999**	**40,625**	**674,424**	**1,078,270**	-	-
Martin Smith [4]	**325,000**	**-**	**306,800**	**4,956**	**40,625**	**677,381**	**1,082,997**	-	-
Total Executive Directors	**2,597,959**	**61,606**	**3,031,184**	**28,246**	**167,375**	**5,886,370**	**9,411,128**	2,603,956	4,024,414
Non-Executive Directors									
Graham Birch [5]	**89,991**	**-**	**-**	**-**	**-**	**89,991**	**143,877**	76,662	118,483
Sir Malcolm Field	**90,000**	**-**	**-**	**-**	**-**	**90,000**	**143,892**	90,000	139,095
Lord Guthrie	**87,550**	**-**	**-**	**-**	**-**	**87,550**	**139,975**	87,550	135,308
Peter Hill-Wood [6]	**51,042**	**-**	**-**	**-**	**-**	**51,042**	**81,605**	90,000	139,095
David Humphreys [7]	**34,204**	**-**	**-**	**-**	**-**	**34,204**	**54,685**	-	-
Sir Roderic Lyne	**87,550**	**-**	**-**	**-**	**-**	**87,550**	**139,975**	87,550	135,308
Charles McVeigh	**87,550**	**-**	**-**	**-**	**-**	**87,550**	**139,975**	87,550	135,308
Total Non-Executive Directors	**527,887**	**-**	**-**	**-**	**-**	**527,887**	**843,984**	519,312	802,597
Total	**3,125,846**	**61,606**	**3,031,184**	**28,246**	**167,375**	**6,414,257**	**10,255,112**	3,123,268	4,827,011

The contents of this table and the Directors' interests under the LTIP constitute the audited information within this report.

1 *Rates of exchange used: 2011: £0.625:US$1; 2010: £0.65:US$1(average exchange rate throughout the year).*

2 *Dr Maslovskiy received fees of £61,606 (US$98,496) in respect of his non-executive directorship of IRC Limited for the period 1 January 2011 to 20 December 2011, the date of his resignation as a non-executive director of IRC Limited (2010: £20,991/US$32,442 for the period 3 September to 31 December 2011) and are included in other fees.*

3 *Appointed as a Director on 20 December 2011. The remuneration disclosed in this table relates to the period 20 December to 31 December 2011.*

4 *Appointed as a Director on 4 January 2011. The remuneration disclosed in the above table relates to the period 1 January 2011 to 31 December 2011. During the year ended 31 December 2010 Messrs Maruta, Smith and Dr Samokhvalova were employed by the Company and were members of the Executive Committee. During this period their cumulative earnings (annual basic salary and bonus) totalled £1,237,500. As this amount was not earned during their appointment as a Director it has not been included in the 'Total 2010' comparative figure.*

5 *Appointed as Senior Independent Non-Executive Director on 4 January 2011. The remuneration disclosed in this table relates to his appointment as a Director from 1 January 2011 to 31 December 2011 and his appointment as Senior Independent Non-Executive Director from 4 January 2011 to 31 December 2011.*

6 *Retired as a Director on 19 May 2011. The remuneration disclosed in this table relates to the period 1 January 2011 to 19 May 2011.*

7 *Appointed as a Director on 24 August 2011. The remuneration disclosed in this table relates to the period 24 August 2011 to 31 December 2011.*

8 *Defined Contribution Scheme.*

9 *Includes expense allowances as follows.*

	Accommodation £	Medical insurance £	Total £
Brian Egan	12,000	6,975	18,975
Alfiya Samokhvalova	-	1,999	1,999
Andrey Maruta	-	2,316	2,316
Martin Smith	-	4,956	4,956
Total	**12,000**	**16,246**	**28,246**

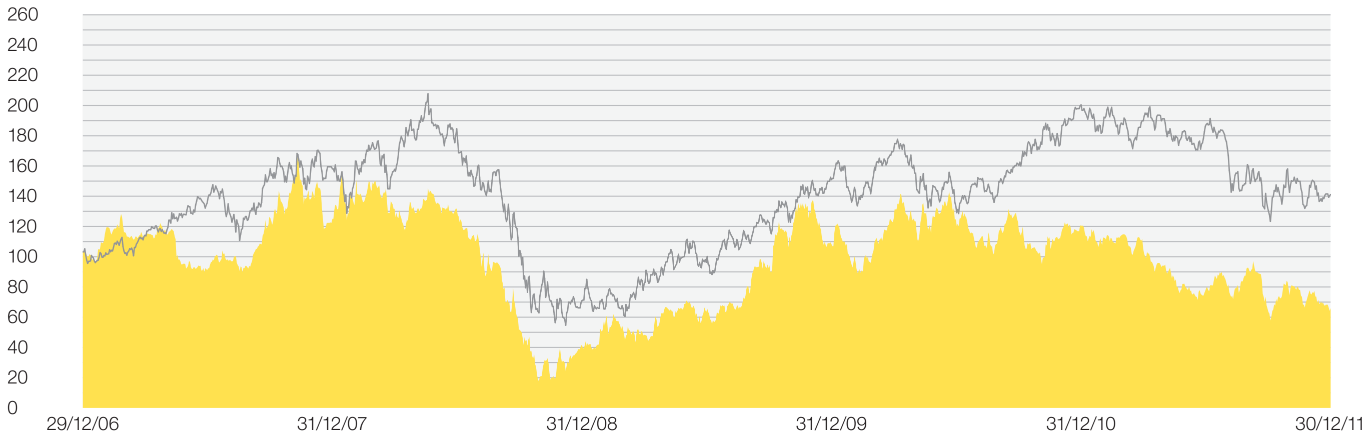
Directors' share interests

The interests of Directors who held office during the period 1 January 2011 to 31 December 2011 in the Ordinary Shares of the Company are set out in the Directors' Report on page 93.

For the year ended 31 December 2011

This report includes a graph illustrating the Company's performance relative to the FTSE 350 Mining Index, as shown below. The Board considers the FTSE 350 Mining Index to be an appropriate index for comparison as the constituents represent the UK-listed mining sector.

Performance comparator graph



Petropavlovsk PLC
FTSE 350 Mining Index

This report was approved by the Board of Directors of Petropavlovsk PLC and signed on its behalf by:

Sir Malcolm Field
Chairman of the Remuneration Committee
27 March 2012

Audit Committee Report

For the year ended 31 December 2011

"The Group's governance, risk management and financial reporting processes continue to evolve and improve as the Company follows its growth strategy through exploration and new technologies necessitating a more sophisticated control framework."
Sir Malcolm Field
Chairman of the Audit Committee

Dear shareholder,
As Chairman of the Audit Committee (the "Committee"), I would like to give you an overview of the operation and scope of the Committee and report on its work over the past year.

During 2011, Dr Graham Birch, Mr Charles McVeigh and Mr Peter Hill-Wood were my colleagues on the Committee. Mr Peter Hill-Wood stepped down from the Committee on 19 May 2011 and I would like to extend my thanks to Peter for his considerable contribution to the Committee.

Mr Charlie McVeigh and I are considered by the Company as being members with the requisite recent and relevant financial experience due to our past employment experience in finance or comparable experience in corporate activities. Dr Graham Birch's background in commodity fund management and his PhD in Mining Geology enable him to bring mining expertise to our deliberations.

We held four meetings during the year scheduled to coincide with the Group's financial reporting and audit cycle. These were also attended (by invitation for all or part of any meeting) by the external auditor, the Company's Chairman, the Chief Executive Officer, the Chief Financial Officer, the Finance Director - Russia, the Internal Auditor, Group Head Financial Reporting and the Company Secretary. Preparatory meetings were also held with the internal and external auditors and the Chief Financial Officer. The Committee met two times during the year with the Group's external auditor, without management, to discuss matters relating to their remit and any issues arising from the audit. The Committee maintains an open dialogue with the external auditor. Following each meeting I report the findings of the Committee to the Board, focusing on matters where the Committee believes that action or improvement is needed and making recommendations as to the steps to be taken.

Our principal role is to ensure that the Group maintains sound internal control systems ensuring the integrity of its financial statements. The Committee is satisfied that the Board maintains such risk management and internal controls. Key to giving us confidence in the Group's approach to controls and risk is the effectiveness of our external auditor, Deloitte LLP ("Deloitte"). We judge them on the quality of their audit findings and management's response. Their independence is displayed through their challenge on management. Their effectiveness enables us to recommend their reappointment in 2012.
The Committee also works closely with the Company's Risk Committee, identifying financial risks and developing mechanisms for avoiding or mitigating these risks.

Members	Date of appointment	Attendance at meetings during 2011
Sir Malcolm Field	22 April 2009	4/4
Graham Birch	12 February 2010	4/4
Charles McVeigh III	25 June 2009	4/4
Peter Hill-Wood *	25 June 2009	1/1

** Retired on 19 May 2011.*

For the year ended 31 December 2011

Summary of activities undertaken by the Committee during the year and focus for 2012:

Financial reporting

In 2011, the Committee continued to focus on issues to coincide with key events of the annual financial reporting and audit cycle.
This included reviewing the financial statements for the year ended 31 December 2010 and the 2011 interim results. During our review we considered significant accounting policies, any changes to them and significant accounting judgements discussing any issues with executive management and the external auditor.

Following the 2010 year-end audit Deloitte detailed its findings to the Committee, highlighting areas where controls and financial processes could be further improved. These were discussed in detail and as a consequence a series of actions were agreed to improve the controls, flow and quality of information which has already led to better decision making by the executive management team and the Board. The Committee will continue to monitor progress made against these actions as part of its remit during 2012. The Committee recognises that the Group's governance, risk management and financial reporting processes will continue to evolve and improve as the Company follows its growth strategy through exploration and new technologies, necessitating a more sophisticated control framework. Given the recent growth of the Group to a more complex multi-mine operator, the evolution of the Group's governance, risk management and financial reporting process is a journey, and consequently this area remains of enhanced focus for both the Committee and the executive management team. Further detailed information on our internal control framework is provided on page 124.

Bribery Act 2010

During the year the Committee received a report from the Chairman of the Anti-Bribery Committee, which was established in response to the Bribery Act 2010, in order to assess the Group's compliance with this new legislation. The Company has adopted a zero-tolerance approach to bribery and corruption matters and this issue is monitored by the Board, with the Chairman taking ultimate responsibility for ensuring that the necessary policies and procedures are implemented. The Committee is satisfied with the steps that have been undertaken by the Anti-Bribery Committee to date in ensuring the Group's compliance with the applicable legislation and the training of our employees is continuous and on-going. This area will remain a key focus for the Board and the Audit and Risk Committees during 2012 and beyond.

The Board has adopted a policy under which its employees can raise concerns in confidence, about possible wrongdoing. The Committee intends to review these procedures to ensure that they are appropriate given the requirements of the Bribery Act 2010. In addition to the above Group policy, all staff have the opportunity to raise concerns regarding occupational health and safety with senior management, as outlined in labour protection policies. Additional initiatives have included the installation of a "telephone hotline" which employees can use to report any violations and suggest improvements.

Training

During the year the Committee received updates regarding changes in accounting standards and corporate governance from Deloitte. Members of the Committee are able to attend, at the Company's expense, relevant courses and seminars to assist them in undertaking their duties on the Committee. Their performance as a member of the Committee is also considered during the Board performance evaluation process.

Internal audit function

Prior to the commencement of the year the Committee reviewed and agreed the proposed internal audit plan for 2011. The Committee has received and reviewed reports on the internal audits undertaken during the year, including details of recommendations and management's response.

One of the principal responsibilities of the Committee is to consider the internal audit function of the Group to ensure that it is adequately resourced and has appropriate standing within the Group.
During the year the current Group Head of Internal Audit resigned to accept another position and progress his career. The Committee took this opportunity to review the structure of the Group's internal audit function to ensure that it is adequately resourced, relevant to the size, complexity and culture of the Group and provides the required level of assurance to the Committee. The Committee considered the options available together with the Chairman, Chief Executive Officer and Chief Financial Officer. We met with, and had a presentation from, an external provider to outsource the internal audit function.
Other options under consideration by the Committee were to use the services of an external provider in conjunction with the current in-house internal auditor or retain the existing internal audit function only, recruiting a new Group Head of Internal Audit. The Committee concluded together with the executive that it is appropriate for the internal audit function to remain in-house to ensure consistency in the approach adopted and in order that the Group Head of Internal Audit and his team can establish a strong relationship with the Committee and with management. A new Group Head of Internal Audit has now been appointed to lead and develop this function.

The Committee's terms of reference, which are reviewed annually, most recently in October 2011, are available for inspection on the Company's website at www.petropavlovsk.net

External auditor

The Committee monitored the Group's policy on external audit. This included assessing the objectivity, independence and effectiveness of the Company's external auditor. This assessment included reviewing Deloitte's fulfilment of the agreed audit plan for the year ended 31 December 2010 and any variations from this and their robustness and perceptiveness in their handling of key accounting and audit judgements. The Committee also considered Deloitte's publication entitled "Briefing on audit matters" which provided details of the safeguards and procedures Deloitte has in place to ensure their independence and objectivity. In addition the Committee reviewed Deloitte's "2011 Audit Transparency Report" in respect of the year ended 31 May 2011. The report sets out the steps taken by Deloitte to achieve audit quality by reference to the audit quality framework issued by the Professional Oversight Board of the Financial Reporting Council.

During the year we reviewed Deloitte's proposed audit fee for the 2011 interim and year-end audits and after consideration recommended these to the Board for approval. We also reviewed the non-audit work carried out by Deloitte, to ensure that such services do not impair their independence or objectivity. Non-audit services provided by Deloitte in 2011 principally related to technical accounting advice and advice on the structure of the Company's employee benefit trust to ensure full compliance with new legislation.

The technical accounting advice given by Deloitte was closely related to the work performed in the audit and thus it was thought appropriate that it was undertaken by them. Accordingly the Committee did not consider that this would affect the independence of Deloitte as auditor. The advisory services provided in respect of the employee benefit trust related principally to tax issues, given Deloitte's historical knowledge of the Group's employee benefit trust it was considered more efficient for them to undertake this work. However a separate tax team at Deloitte was engaged on this matter to ensure their independence as auditor was not compromised.

Non-audit services provided by Deloitte were in line with the Company's policy on the provision of non-audit services which was approved by the Committee last year. A breakdown of non-audit fees paid in 2011 is set out in note 7 on page 149 of this Report. Deloitte LLP are auditors of IRC Limited, the Company's 65.6% owned Hong Kong listed subsidiary.

Deloitte was appointed as external auditor to the Company in April 2009 at the time of the Company's move to the Main Board of the London Stock Exchange. Mr Doug King, the lead audit partner, is in his third year of tenure. The Committee is satisfied that the current tenure of Deloitte and of Mr King is not such as to affect their independence or objectivity. Accordingly the Committee does not consider it appropriate to undertake a tender for the provision of external auditor to the Company at the present time. We are satisfied that Deloitte remain independent and objective and that they have been effective in their duties. As referred to above, the Committee has recommended Deloitte's re-appointment as external auditor of the Company to the Board.

Assurance – financial and internal controls and risk management

We operate within the assurance framework established by the Board and under which the Board has delegated authority to the Risk, HSE and Executive Committees in addition to the Audit Committee, details of which are as follows.

The Board (which receives advice from the Audit, Risk and HSE Committees) has overall responsibility for the system of internal control and risk management in the Group. On behalf of the Board, the Committee has considered the effectiveness of the Group's system of internal control. The Committee has also considered and reviewed the Group's financial risks and the mitigating action being taken to address these and has reported its findings to the Risk Committee. The system of controls is designed to manage, but may not eliminate, the risks of failure to achieve the Group's objectives. Oversight is provided by the Executive Committee, which meets regularly to review the results of the Group's operations.

For IRC, Petropavlovsk operates controls over the inclusion of its financial data but places reliance upon the systems of internal control operating within IRC and the obligations upon its Board relating to the effectiveness of its own systems.

The Board and the Committee pay careful attention to ensuring that all documents released by the Group and the Company, including the Annual Report and Financial Statements, present an accurate, balanced and understandable assessment of the Group and the Company's position and prospects. The Company has also established a Disclosure Committee comprising Executive Directors, Non-Executive Directors, the Group Head of Legal Affairs and the Company Secretary, which reviews financial statements prior to their release to ensure that they comply with the Listing Rules and applicable legislation. Any two members of the Disclosure Committee constitute a quorum.

The Company's policy on the provision of non-audit services is available for inspection on the Company's website at www.petropavlovsk.net

Internal controls

The framework for the Company's internal control system is documented in a Governance and Control Policy and Procedures Manual (the "GCCP") which has been approved by the Board and the Audit Committee. The GCCP is reviewed annually by the Board and the Audit Committee. In 2011, the GCCP was amended to reflect the newly established Strategic, Technical and Anti-Bribery Committees.

Some key features of the internal control system are:

- a defined management structure with clear accountabilities. There is a defined delegation of authorities, which covers all expenditure;
- Board approval of a detailed annual budget, with monthly re-forecasts being made subsequently;
- formal review by the Executive Committee of detailed monthly management accounts including variance analysis against the approved annual budget. A summary of the most recent monthly accounts are provided to the Board highlighting key issues;
- appropriate segregation of duties throughout the Group, in particular separating the purchasing/ordering function from the processing/payments function;
- a centrally directed treasury function which manages the Company's cash and debt on a daily basis, with a full analysis of the Company's cash and debt positions circulated weekly to management;
- the Group internal audit function performs a programme of audits throughout the year;
- review of Group-wide risks by the Executive Committee and financial risks by the Audit Committee. In turn, these Committees report through to the Risk Committee on all significant risks, which are then considered by the Risk Committee;
- specific approval procedures for all related party transactions. A Committee of independent Directors reviews the details of all transactions and approves all significant transactions as appropriate; and
- Audit Committee approval sought to all key judgements made in preparation of the interim and annual accounts.

Risk management

The Company has adopted a formal risk management framework with the Board having ultimate responsibility for setting the Group's risk appetite and the executive team having responsibility for on-going risk review and management. The system is designed to ensure that the key risks taken by the Company in the conduct of its business and which may affect its ability to deliver its strategy effectively, are identified and evaluated, and that the appropriate controls are put in place to manage these risks.

The Board has delegated authority to the Risk Committee, which currently comprises four independent Non-Executive Directors and one Executive Director, to make recommendations to the Board on the Group's risk appetite.

The Committee retains responsibility for reviewing financial risks and we receive reports on financial risk from the Chief Financial Officer. The Committee reports back on its findings and recommendations on the financial risks and their management to the Risk Committee, who in turn report to the Board. The Report of the Risk Committee including details of the principal risks of the Group are on pages 76 to 87.

Overview

As a result of our work during the year, the Committee has concluded that it has acted in accordance with its terms of reference.

This year's Annual General Meeting of the Company will be held on 31 May 2012 during which I will be pleased to answer any questions about the work of the Audit Committee.

Sir Malcolm Field
Chairman of the Audit Committee
27 March 2012

Financial Statements and Shareholder Information

Statement of Directors' Responsibilities

For the year ended 31 December 2011

Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 Company for that period.

In preparing the parent company financial statements, the Directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and accounting estimates that are reasonable and prudent;

– state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that 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 entity's financial position and financial performance; and

– make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement
We confirm that to the best of our knowledge:

– the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

– the management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Peter Hambro
Chairman
27 March 2012

Brian Egan
Chief Financial Officer
27 March 2012

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2011

We have audited the financial statements of Petropavlovsk PLC for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, and the related notes 1 to 38, the Parent Company Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the 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 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the 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 and the parent company'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 financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, contained within note 2.1 to the financial statements, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Douglas King (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom
27 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

		2011			2010		
	note	**Before exceptional items US$'000**	**Exceptional items US$'000**	**Total US$'000**	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
Group revenue	5	**1,262,490**	**–**	**1,262,490**	612,016	–	612,016
Operating expenses	6	**(863,335)**	**2,432**	**(860,903)**	(490,556)	(15,417)	(505,973)
		399,155	**2,432**	**401,587**	121,460	(15,417)	106,043
Share of results of joint ventures		**(1,360)**	**–**	**(1,360)**	(3,168)	–	(3,168)
Operating profit/(loss)		**397,795**	**2,432**	**400,227**	118,292	(15,417)	102,875
Investment income	9	**3,119**	**–**	**3,119**	6,525	–	6,525
Interest expense	9	**(39,641)**	**–**	**(39,641)**	(32,172)	–	(32,172)
Other finance (losses)/gains	9	**(2,381)**	**–**	**(2,381)**	2,285	(10,314)	(8,029)
Profit/(loss) before taxation		**358,892**	**2,432**	**361,324**	94,930	(25,731)	69,199
Taxation	10	**(120,835)**	**–**	**(120,835)**	(46,228)	–	(46,228)
Profit/(loss) for the period		**238,057**	**2,432**	**240,489**	48,702	(25,731)	22,971
Attributable to:							
Equity shareholders of Petropavlovsk PLC		**228,453**	**2,432**	**230,885**	45,508	(25,731)	19,777
Non-controlling interests		**9,604**	**–**	**9,604**	3,194	–	3,194
		238,057	**2,432**	**240,489**	48,702	(25,731)	22,971
Earnings/(loss) per share							
Basic	11	**US$1.23**	**US$0.01**	**US$1.24**	US$0.25	(US$0.14)	US$0.11
Diluted	11	**US$1.22**	**US$0.01**	**US$1.23**	US$0.25	(US$0.14)	US$0.11

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit for the period	**240,489**	22,971
Other comprehensive income and expense:		
Revaluation of available-for-sale investments	**(1,941)**	(100)
Exchange differences on translating foreign operations	**(3,603)**	443
Other comprehensive (expense)/income for the period	**(5,544)**	343
Total comprehensive income for the period	**234,945**	23,314
Attributable to:		
Equity shareholders of Petropavlovsk PLC	**225,617**	20,161
Non-controlling interests	**9,328**	3,153

Consolidated Balance Sheet

For the year ended 31 December 2011

	note	2011 US$'000	2010 Restated (a) US$'000
Assets			
Non-current assets			
Goodwill	13	**21,675**	21,675
Intangible assets	14	**334,737**	346,862
Property, plant and equipment	15	**1,865,612**	1,320,333
Prepayments for property, plant and equipment		**207,101**	74,995
Interests in joint ventures	16	**7,086**	8,446
Available-for-sale investments	17	**561**	3,443
Inventories	19	**43,187**	11,611
Other non-current assets	18	**37,871**	29,196
Deferred tax assets	24	**2,562**	6,774
		2,520,392	1,823,335
Current assets			
Inventories	19	**330,660**	197,951
Trade and other receivables	20	**208,977**	143,513
Derivative financial instruments		**–**	2,381
Cash and cash equivalents	21	**213,556**	320,986
		753,193	664,831
Total assets		**3,273,585**	2,488,166
Liabilities			
Current liabilities			
Trade and other payables	22	**(134,904)**	(142,738)
Current income tax payable		**(12,923)**	(9,735)
Borrowings	23	**(216,430)**	(93,104)
		(364,257)	(245,577)
Net current assets		**388,936**	419,254
Non-current liabilities			
Borrowings	23	**(790,408)**	(399,014)
Deferred tax liabilities	24	**(176,031)**	(133,542)
Provision for close down and restoration costs	25	**(34,958)**	(11,085)
		(1,001,397)	(543,641)
Total liabilities		**(1,365,654)**	(789,218)
Net assets		**1,907,931**	1,698,948
Equity			
Share capital	26	**2,891**	2,891
Share premium		**377,140**	377,140
Merger reserve		**331,704**	570,071
Own shares	27	**(10,444)**	(10,675)
Convertible bond reserve	23	**59,032**	59,032
Share-based payments reserve		**13,703**	3,140
Other reserves		**1,412**	6,680
Retained earnings		**857,378**	423,374
Equity attributable to the shareholders of Petropavlovsk PLC		**1,632,816**	1,431,653
Non-controlling interests		**275,115**	267,295
Total equity		**1,907,931**	1,698,948

(a) Prepayments for property, plant and equipment previously reported within current assets as prepayments for property, plant and equipment were reclassified to non-current assets to ensure a better presentation of the Group's consolidated assets that are expected to be realised within more than twelve months after the reporting period (note 2.3)

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 27 March 2012 and signed on their behalf by

Peter Hambro
Director

Brian Egan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	note	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Own shares US$'000	Convertible bonds US$'000	Share-based payments reserve US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
		Total attributable to equity holders of Petropavlovsk PLC										
Balance at 1 January 2010		2,805	275,742	570,071	(14,003)	–	3,847	6,296	443,136	1,287,894	11,870	1,299,764
Total comprehensive income for the period		–	–	–	–	–	–	384	19,777	20,161	3,153	23,314
Dividends		–	–	–	–	–	–	–	(27,774)	(27,774)	–	(27,774)
Share-based payments		–	–	–	–	–	2,574	–	–	2,574	–	2,574
Vesting of Replacement LTIP		–	–	–	3,328	–	(3,260)	–	(68)	–	–	–
Employee options exercised		3	246	–	–	–	(21)	–	21	249	–	249
Issue of convertible bonds		–	–	–	–	59,032	–	–	–	59,032	–	59,032
Exercise of warrants		83	101,152	–	–	–	–	–	–	101,235	–	101,235
Acquisition of subsidiary		–	–	–	–	–	–	–	–	–	15,608	15,608
Issue of ordinary shares by subsidiary		–	–	–	–	–	–	–	(12,046)	(12,046)	241,653	229,607
Other transaction with non-controlling interests		–	–	–	–	–	–	–	328	328	(4,989)	(4,661)
Balance at 1 January 2011		**2,891**	**377,140**	**570,071**	**(10,675)**	**59,032**	**3,140**	**6,680**	**423,374**	**1,431,653**	**267,295**	**1,698,948**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**–**	**(5,268)**	**230,885**	**225,617**	**9,328**	**234,945**
Dividends	12	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(36,856)**	**(36,856)**	**–**	**(36,856)**
Share-based payments	30	**–**	**–**	**–**	**–**	**–**	**10,857**	**–**	**–**	**10,857**	**–**	**10,857**
Vesting of awards within Petropavlovsk PLC LTIP		**–**	**–**	**–**	**231**	**–**	**(294)**	**–**	**63**	**–**	**–**	**–**
Other transactions with non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,545**	**1,545**	**(1,508)**	**37**
Transfer to retained earnings [(a)]		**–**	**–**	**(238,367)**	**–**	**–**	**–**	**–**	**238,367**	**–**	**–**	**–**
Balance at 31 December 2011		**2,891**	**377,140**	**331,704**	**(10,444)**	**59,032**	**13,703**	**1,412**	**857,378**	**1,632,816**	**275,115**	**1,907,931**

(a) Arises from an adjustment to the book value of the investment in the Company financial statements to reflect the value of the underlying net assets of IRC Limited.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	note	2011 US$'000	2010 US$'000
Cash flows from operating activities			
Cash generated from operations	28	**356,287**	80,494
Interest paid		**(36,839)**	(26,787)
Income tax paid		**(60,022)**	(15,404)
Net cash from operating activities		**259,426**	38,303
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired	16	**(11,935)**	(11,505)
Acquisitions of non-controlling interests		**(2,250)**	(3,113)
Proceeds from disposal of the Group's interests in joint ventures and available-for-sale investments	6	**10,000**	–
Purchase of property, plant and equipment and exploration expenditure		**(801,062)**	(507,400)
Proceeds from disposal of property, plant and equipment		**1,407**	953
Investments in joint ventures and associates		**(616)**	(4,731)
Loans granted		**(121)**	(1,413)
Repayment of amounts loaned to other parties		**2,389**	18,507
Interest received		**1,701**	5,812
Net cash used in investing activities		**(800,487)**	(502,890)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares, net of transaction costs		**–**	101,484
Issue of convertible bonds, net of transaction costs	23	**–**	370,290
Issue of ordinary shares by subsidiary, net of transaction costs		**–**	234,589
Proceeds from borrowings		**658,081**	174,147
Repayments of borrowings		**(155,646)**	(136,764)
Restricted bank deposit placed in connection with ICBC facility	23	**(6,000)**	–
Debt transaction costs paid in connection with ICBC facility [a]	23	**(25,889)**	(4,090)
Dividends paid to shareholders of Petropavlovsk PLC		**(36,309)**	(27,773)
Dividends paid to non-controlling interests		**(548)**	(327)
Net cash from financing activities		**433,689**	711,556
Net (decrease)/increase in cash and cash equivalents in the period		**(107,372)**	246,969
Effect of exchange rates on cash and cash equivalents		**(58)**	(2,450)
Cash and cash equivalents at beginning of period		**320,986**	76,467
Cash and cash equivalents at end of period		**213,556**	320,986

(a) Including insurance premium of US$22.5 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. General information

Petropavlovsk PLC (the "Company") is a company incorporated in Great Britain and registered in England and Wales. The address of the registered office is 11 Grosvenor Place, London SW1X 7HH.

2. Significant accounting policies

2.1. Basis of preparation and presentation

The consolidated financial statements of Petropavlovsk PLC and its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial investments, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Going concern

The Group monitors and manages its liquidity risk on an on-going basis. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's producing assets and the timing of expenditure on development projects. The Group meets its capital requirements through a combination of sources including cash generated from operations and external debt.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance and expenditure and the mitigating actions that the Group could take in the event of adverse changes, show that the Group should be able to operate within the level of its secured facilities for the subsequent 12 months from the date of approval of the 2011 Annual Report and Accounts.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Exceptional items

Exceptional items are those significant items of income and expense, which due to their nature or the expected infrequency of the events that give rise to these items should, in the opinion of the Directors, be disclosed separately to enable better understanding of the financial performance of the Group.

2.2. Adoption of new and revised standards and interpretations

There are no IFRSs or IFRIC interpretations that are effective for the first time in the current reporting period that had a significant impact on the amounts reported in these consolidated financial statements.

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2011 and not early adopted:

- IFRS 9 "Financial instruments", effective for accounting periods beginning on or after 1 January 2015
- IFRS 10 "Consolidated financial statements", effective for accounting periods beginning on or after 1 January 2013
- IFRS 11 "Joint arrangements", effective for accounting periods beginning on or after 1 January 2013
- IFRS 12 "Disclosure of interests in other entities", effective for accounting periods beginning on or after 1 January 2013
- IFRS 13 "Fair value measurement", effective for accounting periods beginning on or after 1 January 2013
- IAS 28 (revised) "Associates and joint ventures", effective for accounting periods beginning on or after 1 January 2013
- Amendments to IAS 1 "Financial statement presentation", effective for accounting periods beginning on or after 1 July 2012
- Amendments to IFRS 7 "Financial instruments: Disclosures", effective for accounting periods beginning on or after 1 July 2011
- IFRIC 20 "Stripping costs in the production phase of a surface mine", effective for accounting periods beginning on or after 1 January 2013

2. Significant accounting policies continued

2.2. Adoption of new and revised standards and interpretations continued

The directors do not expect that the adoption of the standards, amendments and interpretations listed above will have a material impact on the Group's financial statements, except as follows:

- IFRS 9 introduces new requirements for classifying and measuring financial assets and will impact both measurement and disclosure of financial instruments
- IFRS 12 will impact the disclosure of Group's interests in other entities
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures
- IFRIC 20 will impact asset recognition criteria and classification of costs from a stripping activity which provide improved access to the ore body as well as amortisation period

2.3 Comparatives

Prepayments for property, plant and equipment of US$207.1 million (2010: US$74.9 million, 2009: US$41.6 million) previously reported within current assets as prepayments for property, plant and equipment were reclassified to non-current assets. The reclassification was carried out to ensure a better representation in the Group's consolidated assets that are expected to be realised within more than twelve months after the reporting period.

2.4. Basis of consolidation

These consolidated financial statements consist of the financial statements of the Company and the entities controlled by the Company (its subsidiaries) as at the balance sheet date.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. The recognised income and expense are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.5. Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for each acquisition is measured at the aggregate of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Where applicable, the consideration transferred includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, on an acquisition-by-acquisition basis.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of recognised income and expenses.

2.6. Non-controlling interests

The group treats transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying vale of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.7. Acquisition of assets

Frequently, the acquisition of mining licences is effected through a non-operating corporate structure. As these structures do not represent a business, it is considered that the transactions do not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are recognised at cost.

Where the Group has full control but does not own 100% of the assets, then non-controlling interests are recognised at an equivalent amount based on the Group's cost, the assets continue to be carried at cost and changes in those values are recognised in equity.

2.8. Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are accounted for by using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Interests in joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in joint ventures.

2.9. Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for the impairment.

2.10. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, which is the Group's presentation currency. The functional currency of the Company is the US Dollar.

The rates of exchange used to translate balances from other currencies into US Dollars were as follows (currency per US Dollar):

	As at 31 December 2011	**Average year ended 31 December 2011**	As at 31 December 2010	Average year ended 31 December 2010
GB Pounds Sterling (GBP : US$)	**0.65**	**0.62**	0.64	0.65
Russian Rouble (RUR : US$)	**32.20**	**29.39**	30.48	30.36

2. Significant accounting policies continued

2.10. Foreign currency translation continued
In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations which have a functional currency other than US Dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and expenses and accumulated in equity, with share attributed to non-controlling interests as appropriate. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation.

2.11. Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of a subsidiary is included in non-current assets as a separate line item. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill on acquisition of an associate or a joint venture is included in the carrying amount of investment and is tested for impairment as part of the overall balance.

Goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose.

The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost is recognised immediately in the income statement.

2.12. Intangible assets
Exploration and evaluation expenditure and mineral rights acquired
Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, are capitalised and recorded on the balance sheet within intangible assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- Researching and analysing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods;
- Compiling pre-feasibility and feasibility studies; and
- Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made.

Exploration and evaluation expenditure capitalised and mining rights within intangible assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

2.13. Property, plant and equipment
Land and buildings, plant and equipment
On initial recognition, land, property, plant and equipment are valued at cost, being the purchase price and the directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by the Group.

Assets in the course of construction are capitalised in the capital construction in progress account. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment.

Development expenditure
Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as “mine development costs”. Mine development costs are reclassified as “mining assets” at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.
No depreciation is recognised in respect of mine development costs until they are reclassified as mining assets. Mine development costs are tested for impairment in accordance with the policy in note 2.14.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation
Property, plant and equipment are depreciated using a units of production method or on a straight-line basis as set out below.

Mining assets, except for those related to alluvial gold operations, where economic benefits from the asset are consumed in a pattern which is linked to the production level, are depreciated using a units of production method based on the volume of ore reserves, which results in a depreciation charge proportional to the depletion of reserves. The basis for determining ore reserve estimates is set out in note 3.1. Where the mining plan anticipates future capital expenditure to support the mining activity over the life of the mine, the depreciable amount is adjusted for such estimated future expenditure.

Certain property, plant and equipment within mining assets are depreciated based on estimated useful lives, if shorter than the remaining life of the mine or if such property, plant and equipment can be moved to another site subsequent to the mine closure.

Mining assets related to alluvial gold operations are depreciated on a straight-line basis based on estimated useful lives.

Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

Mine development costs and capital construction in progress are not depreciated, except for that property plant and equipment used in the development of a mine. Such property, plant and equipment are depreciated on a straight-line basis based on estimated useful lives and depreciation is capitalised as part of mine development costs.

Residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively.

Estimated useful lives normally vary as set out below.

	Average life Number of years
Buildings	15–50
Plant and machinery	3–20
Vehicles	5–7
Office equipment	5–10
Computer equipment	3–5

2. Significant accounting policies continued

2.14. Impairment of non-financial assets

Property, plant and equipment and finite life intangible assets are reviewed by management for impairment if there is any indication that the carrying amount may not be recoverable. This applies to the Group's share of the assets held by the joint ventures as well as the assets held by the Group itself.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of "value in use" (being the net present value of expected future cash flows of the relevant cash generating unit) or "fair value less costs to sell". Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction. Future cash flows are based on:

- estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices (assuming the current market prices will revert to the Group's assessment of the long-term average price, generally over a period of up to five years); and
- future cash costs of production, capital expenditure, environment protection, rehabilitation and closure.

IAS 36 "Impairment of assets" includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related capital expenditure. When calculating "value in use", it also requires that calculations should be based on exchange rates current at the time of the assessment.

For operations with a functional currency other than the US Dollar, the impairment review is undertaken in the relevant functional currency. These estimates are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36 "Impairment of assets".

The discount rate applied is based upon a pre-tax discount rate that reflects current market assessments of the time value of money and the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

2.15. Deferred stripping costs

In open-pit mining operations, removal of overburden and other waste materials, referred to as stripping, is required to obtain access to the ore body.

Stripping costs incurred during the development of the mine are capitalised as part of mine development costs and are subsequently depreciated over the life of a mine on a units of production basis.

Stripping costs incurred during the production phase of a mine are deferred as part of cost of inventory and are written off to the income statement in the period over which economic benefits related to the stripping activity are realised where this is the most appropriate basis for matching the costs against the related economic benefits.

Where, during the production phase, further development of the mine requires a phase of unusually high overburden removal activity that is similar in nature to pre-production mine development, such stripping costs are considered in a manner consistent with stripping costs incurred during the development of the mine before the commercial production commences.

2.16. Provisions for close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or constructive obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or unwinding of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance sheet date. All other costs of continuous rehabilitation are charged to the income statement as incurred.

2.17. Financial instruments

Financial instruments recognised in the balance sheet include cash and cash equivalents, other investments, trade and other receivables, borrowings, derivatives and trade and other payables.

Financial instruments are initially measured at fair value when the Group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit or loss. The subsequent measurement of financial instruments is dealt with below.

Financial assets
Financial assets are classified into the following specified categories: "financial assets at fair value through profit or loss", "held-to-maturity investments", "available-for-sale financial assets" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised at trade-date, the date on which the Group commits to purchase the asset. The Group does not hold any financial assets which meet the definition of "held-to-maturity investments".

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included within non-current assets unless the investment matures or management intends to dispose of them within 12 months of the balance sheet date. Available-for-sale financial assets are initially measured at cost and subsequently carried at fair value. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of other reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets fixed or determinable payments that are not quoted on an active market. Loans and receivables are recognised initially at fair value and subsequently 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.

Effective interest method
The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Cash and cash equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and are measured at cost which is deemed to be fair value as they have a short-term maturity.

Trade receivables
Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Impairment of trade receivables is established when there is objective evidence as a result of a loss event that the Group will not be able to collect all amounts due according to the original terms of the receivables. 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 impairment is recognised in the income statement.

Other investments
Listed investments and unlisted equity investments, other than investments in subsidiaries, joint ventures and associates, are classified as available-for-sale financial assets and subsequently measured at fair value. Fair values for unlisted equity investments are estimated using methods reflecting the economic circumstances of the investee. Equity investments for which fair value cannot be measured reliably are recognised at cost less impairment. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to the income statement as "gains and losses from investment securities".

Financial liabilities
Financial liabilities, other than derivatives, are measured on initial recognition at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Significant accounting policies continued

2.17. Financial instruments continued

Derivative financial instruments

In accordance with IAS 39 the fair value of all derivatives are separately recorded on the balance sheet. Derivatives is initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Derivatives embedded in other financial instruments or non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host-contract and the host contract is not carried at fair value. Embedded derivatives are recognised at fair value at inception. Any change to the fair value of the embedded derivatives is recognised in operating profit within the income statement. Embedded derivatives which are settled net are disclosed in line with the maturity of their host contracts.

The fair value of embedded derivatives is determined by using market prices where available. In other cases, fair value will be calculated using quotations from independent financial institutions, or by using appropriate valuation techniques.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue cost.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed.

2.18. Provisions

Provisions are recognised when the Group has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

2.19. Inventories

Inventories are valued at the lower of cost and net realisable value after appropriate allowances for redundant and slow moving items. Net realisable value represents estimated selling price in the ordinary course of business less any further costs expected to be incurred to completion. Cost is determined on the following bases:

- Gold in process is valued at the average total production cost at the relevant stage of production;
- Gold on hand is valued on an average total production cost method;
- Ore stockpiles are valued at the average moving cost of mining and stockpiling the ore. Stockpiles are allocated as a non-current asset where the stockpile exceeds current processing capacity;
- Consumable stores are valued at average cost; and
- Heap-leach pad materials are measured on an average total production cost basis. The cost of materials on the leach pad from which gold is expected to be recovered in a period greater than 12 months is classified as a non-current asset.

A portion of the related depreciation, depletion and amortisation charge relating to production is included in the cost of inventory.

As described in note 2.15, deferred stripping costs are included in inventories where appropriate.

2.20. Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.21. Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue derived from goods and services comprises the fair value of the sale of goods and services to third parties, net of value added tax, rebates and discounts. The following criteria must also be present:

- The sale of mining products is recognised when the significant risks and rewards of ownership of the products are transferred to the buyer;

- Revenue derived from services is recognised in the accounting period in which the services are rendered;
- Revenue from bulk sample sales made during the exploration or development phases of operations is recognised as a sale in the income statement;
- Dividends are recognised when the right to receive payment is established; and
- Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

2.22. Borrowing costs

Borrowing costs are generally expensed as incurred except where they relate to the financing of acquisition, construction or development of qualifying assets, which are mining projects under development that necessarily take a substantial period of time to get prepared for their intended use. Such borrowing costs are capitalised and added to mine development costs of the mining project when the decision is made to proceed with the development of the project and until such time when the project is substantially ready for its intended use, which is when commercial production is ready to commence.

To the extent that funds are borrowed to finance a specific mining project, borrowing costs capitalised represent the actual borrowing costs incurred. To the extent that funds are borrowed for the general purpose, borrowing costs capitalised are determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of capital expenditure incurred to develop the relevant mining project during the period.

2.23. Taxation

Tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case, the tax is also recognised in the statement of comprehensive income or directly in equity, respectively.

Current tax is the tax expected to be payable on the taxable income for the year calculated using rates that have been enacted or substantively enacted by the balance sheet date. It includes adjustments for tax expected to be payable or recoverable in respect of previous periods.

Full provision is made for deferred taxation on all temporary differences existing at the balance sheet date with certain limited exceptions. Temporary differences are the difference between the carrying value of an asset or liability and its tax base. The main exceptions to this principle are as follows:

- Tax payable on the future remittance of the past earnings of subsidiaries, associates and jointly controlled entities is provided for except where the Company is able to control the remittance of profits and it is probable that there will be no remittance in the foreseeable future;
- Deferred tax is not provided on the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination, such as on the recognition of a provision for close down and restoration costs and the related asset or on the inception of finance lease; and
- Deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is provided in respect of fair value adjustments on acquisitions. These adjustments may relate to assets such as mining rights that, in general, are not eligible for income tax allowances. In such cases, the provision for deferred tax is based on the difference between the carrying value of the asset and its nil income tax base.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates that have been enacted, or substantively enacted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities, 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.

2.24. Share-based payments

The Group has a number of equity-settled share-based payment arrangements in place, details of which are set out in note 30.

Equity-settled share-based payment awards are measured at fair value at the grant date. The fair values determined at the grant date are recognised as an expense on a straight-line basis over the expected vesting period with a corresponding adjustment to the share-based payments reserve within equity.

The fair values of equity-settled share-based payment awards are determined at the dates of grant using a Black-Scholes model for those awards vesting based on operating performance conditions and Monte Carlo model for those awards vesting based on market related performance conditions.

The estimate of the number of the awards likely to vest is reviewed at each balance sheet date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. The impact of the revision of the original estimates, if any, is recognised in the income statement so that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve within equity.

2.25. Employee Benefit Trust

Certain Ordinary Shares underlying the share-based payment awards granted are held by the Employee Benefit Trust. Details of employee benefit trust arrangements are set out in note 30. The carrying value of shares held by the employee benefit trust are recorded as treasury shares, shown as a deduction to shareholders' equity.

3. Areas of judgement in applying accounting policies and key sources of estimation uncertainty

When preparing the consolidated financial statements in accordance with the accounting policies as set out in note 2, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances and previous experience. Actual results may differ from these estimates under different assumptions and conditions.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are set out below.

3.1. Ore reserve estimates

The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2004 (the JORC Code), adjusted to conform with the mining activity to be undertaken under the Group mining plan. The JORC Code requires the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method, impairment charges and for forecasting the timing of the payment of close down and restoration costs. Also, for the purpose of impairment review and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or economic assumptions used to estimate reserves change. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

– Asset carrying values due to changes in estimated future cash flows;

– Depreciation charged in the income statement where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine;

– Provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs; and

– Carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

3.2. Exploration and evaluation costs

The Group's accounting policy for exploration and evaluation expenditure results in exploration and evaluation expenditure being capitalised for those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure being capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to the income statement.

3.3. Impairment

The Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets are impaired and tests goodwill for impairment annually.

The recoverable amount of an asset, or CGU, is measured as the higher of fair value less costs to sell and value in use.

Management necessarily apply their judgement in allocating assets to CGUs as well as in making assumptions to be applied within the value in use calculation.

The key assumptions which formed the basis of forecasting future cash flows and the value in use calculation as of 31 December 2011 are:

– The successful extraction and processing of the reserves in accordance with the available ore reserves and mineral resources and sale of the commodity produced;

– Commodity prices are internal forecasts by management based on the forecasts of industry market researchers, being US$1,700/oz for gold, US$130/tonne for iron ore concentrate and US$208.1/tonne for ilmenite;

– Costs, which are internal forecasts prepared by management, adjusted for future inflation rates in countries of operation; and

– Discount rate to be applied to the future cash flows, being the pre-tax weighted average nominal cost of capital, calculated by management, being in the range between 11.0% and 12.3% for precious metals mining projects and 9.6% and 12.9% for IRC mining projects, depending on the risk inherent to a particular project.

Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets. The impairment assessments are sensitive to changes in commodity prices and discount rates. Changes to these assumptions would result in changes to impairment conclusions, which could have a significant effect on the consolidated financial statements. In particular, with all other assumptions being constant, a reduction in the estimated long-term gold price below $1,500/oz would result in impairment of certain mining assets within precious metals segment.

3.4 Deferred stripping costs

The calculation of deferred stripping costs requires the use of estimates to assess the improved access to the ore to be mined in future periods. Changes to the Group's mining plan and pit design may result in changes to the timing of realization of the stripping activity. As a result, there could be significant adjustments to the amounts of deferred stripping costs capitalised and their classification between current and non-current assets.

3.5. Close down and restoration costs

Costs associated with restoration and rehabilitation of mining sites are typical for extractive industries and are normally incurred at the end of the life of the mine. Provision is recognised for each mining site for such costs discounted to their net present value, as soon as the obligation to incur such costs arises. The costs are estimated on the basis of the scope of site restoration and rehabilitation activity in accordance with the mine closure plan and represent management's best estimate of the expenditure that will be incurred. Estimates are reviewed annually as new information becomes available.

The initial provision for close down and restoration costs together with other movements in the provision, including those resulting from updated cost estimates, changes to the estimated lives of the mines, and revisions to discount rates are capitalised within "mine development costs" or "mining assets" of property, plant and equipment. Capitalised costs are depreciated over the life of the mine they relate to and the provision is increased each period via unwinding the discount on the provision. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the asset and the provision.

The actual costs may be different from those estimated due to changes in relevant laws and regulations, changes in prices as well as changes to the restoration techniques. The actual timing of cash outflows may be also different from those estimated due to changes in the life of the mine as a result of changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provision for close down and restoration costs established which would affect future financial results.

3.6. Tax provisions and tax legislation

The Group is subject to income tax in the UK, Russian Federation, Cyprus and Hong Kong. Assessing the outcome of uncertain tax positions requires judgements to be made. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due, such estimates are based on the status of on-going discussions with the relevant tax authorities and advice from independent tax advisers.

3.7. Recognition of deferred tax assets

Deferred tax assets, including those arising from tax losses carried forward for the future tax periods, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered. The likelihood of such recoverability is dependent on the generation of sufficient future taxable profits which relevant deferred tax asset can be utilised to offset.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, the carrying amount of recognised deferred tax assets may require adjustment, resulting in a corresponding charge or credit to the income statement.

4. Segmental information

The Group has three reportable segments under IFRS 8 which reflect the way the Group's businesses are managed and reported:

- Precious metals segment, comprising gold operations at different stages, from field exploration through to mine development and gold production. The precious metals segment includes the Group's principal mines (Pokrovskiy, Pioneer, Malomir and Albyn), the Group's alluvial operations and the Group's operations under gold joint venture arrangements as well as various gold projects at the exploration and development stages.
- IRC segment, comprising IRC Limited and its subsidiaries. IRC segment includes iron ore projects (Kuranakh, K&S, Garinskoye, Bolshoi Seym, Kostenginskoye and Garinskoye Flanks projects), engineering and scientific operations represented by Giproruda, project for design and development of a titanium sponge production plant in China, project for production of vanadium pentoxides and related products in China as well as various other projects.
- The Other segment, comprising the in-house geological exploration expertise performed by the Group's exploration companies Regis and Dalgeologiya, the in-house construction and engineering expertise performed by the Group's specialist construction company Kapstroi and the engineering and scientific operations represented by PHM Engineering and Irgiredmet as well as procurement of materials such as reagents and consumables and equipment for third parties undertaken by Irgiredmet.

4. Segment information continued

2011	Precious metals US$'000	IRC US$'000	Other US$'000	Consolidated US$'000
Revenue				
Gold	1,093,507	–	–	1,093,507
Silver	7,817	–	–	7,817
Iron ore concentrate	–	110,388	–	110,388
Other external revenue	–	11,820	38,958	50,778
Inter-segment revenue	2,869	–	328,414	331,283
Intra-group eliminations	(2,869)	–	(328,414)	(331,283)
Total Group revenue from external customers	1,101,324	122,208	38,958	1,262,490
Net operating expenses	(602,089)	(101,415)	(43,582)	(747,086)
including				
Depreciation and amortisation	(118,564)	(11,287)	(2,351)	(132,202)
Impairment	(40,103)	–	(1,975)	(42,078)
Share of results in joint ventures	(846)	(514)	–	(1,360)
Segment result	498,389	20,279	(4,624)	514,044
Before exceptional items	486,353	18,840	(4,624)	500,569
Exceptional items	12,036 [(a)]	1,439 [(a)]	–	13,475
Central administration [(b)]				(89,743)
Unallocated impairment of non-trading loans				(14,241)
Foreign exchange losses				(9,833)
Operating profit				400,227
Investment income				3,119
Interest expense				(39,641)
Other finance losses				(2,381)
Taxation				(120,835)
Profit for the period				240,489
Segment Assets	2,077,779	846,981	216,494	3,141,254
Segment Liabilities	(103,391)	(22,832)	(56,567)	(182,790)
Goodwill [(c)]				21,675
Deferred tax – net				(173,469)
Unallocated cash				107,836
Loans given				263
Borrowings				(1,006,838)
Net Assets				1,907,931
Other segment information				
Additions to non-current assets:				
Exploration and evaluation expenditure capitalised within intangible assets	55,497	12,406	226	68,129
Other additions to intangible assets	2,569	–	–	2,569
Capital expenditure	516,724	81,202	22,263	620,189
Other items capitalised	36,832	426	–	37,258
Average number of employees	6,670	2,226	4,489	13,385

(a) See note 6.
(b) Including central administration expenses of IRC Limited of US$23 million.
(c) In making the assessment for impairment, goodwill is allocated to the group of cash generating units likely to benefit from acquisition-related synergies (note 13).

2010	Precious metals US$'000	IRC US$'000	Other US$'000	Consolidated US$'000
Revenue				
Gold	557,853	–	–	557,853
Silver	3,853	–	–	3,853
Iron ore concentrate	–	12,594	–	12,594
Other external sales	–	13,198	24,518	37,716
Inter-segment revenue	6,146	–	231,083	237,229
Intra-group eliminations	(6,146)	–	(231,083)	(237,229)
Total Group revenue from external customers	561,706	25,792	24,518	612,016
Net operating expenses	(315,042)	(74,540)	(39,755)	(429,337)
Including				
Depreciation and amortisation	(60,247)	(4,915)	(8,290)	(73,452)
Impairment	(8,868)	(35,973)	–	(44,841)
Share of results in joint ventures	(3,033)	(135)	–	(3,168)
Segment result	243,631	(48,883)	(15,237)	179,511
Before exceptional items	214,749	(13,939)	(15,237)	185,573
Exceptional items	28,882 (d)	(34,944) (d)	–	(6,062)
Central administration (e)				(73,471)
Foreign exchange losses				(3,165)
Operating profit				102,875
Investment income				6,525
Interest expense				(32,172)
Other finance losses				(8,029)
Taxation				(46,228)
Profit for the period				22,971
Segment Assets	1,365,221	856,146	208,093	2,429,460
Segment Liabilities	(58,893)	(55,807)	(48,857)	(163,557)
Goodwill (f)				21,675
Deferred tax – net				(126,768)
Derivative financial instruments – net				2,381
Unallocated cash				17,506
Loans given				10,369
Borrowings				(492,118)
Net Assets				1,698,948
Other segment information				
Additions to non-current assets:				
Exploration and evaluation expenditure capitalised within intangible assets	60,095	3,323	337	63,755
Other additions to intangible assets	2,271	–	–	2,271
Capital expenditure	298,965	115,987	17,809	432,761
Other items capitalised	8,055	92	–	8,147
Average number of employees	6,054	1,561	4,174	11,789

(d) See note 6.

(e) Including central administration expenses of IRC Limited of US$25.9 million out of which US$9.4 million is an exceptional item, being costs incurred in relation to the listing of IRC Limited on the Stock Exchange of Hong Kong Limited.

(f) In making the assessment for impairment, goodwill is allocated to the group of cash generating units likely to benefit from acquisition-related synergies (note 13).

4. Segment information continued

Entity wide disclosures

Revenue by geographical location [(a)]

	2011 US$'000	2010 US$'000
Russia and CIS	**1,151,929**	578,152
China	**110,388**	12,608
Other	**173**	21,256
	1,262,490	612,016

(a) Based on the location to which the product is shipped or in which the services are provided.

Non-current assets by location of asset [(b)]

	2011 US$'000	2010 US$'000
Russia	**2,480,102**	1,693,551
China	**7,765**	10,411
Other	**11,220**	340
	2,499,087	1,704,302

(b) Excluding financial instruments and deferred tax assets.

Information about major customers
During the years ended 31 December 2011 and 2010, the Group generated revenues from the sales of gold to a number of financial institutions, namely, to Russian banks for Russia domestic sales of gold and to foreign banks for sales of gold outside of Russia. Included in gold sales revenue for the year ended 31 December 2011 are revenues of US$990 million which arose from sales of gold to three banks that individually accounted for more than 10% of the Group's revenue, namely US$521 million to Sberbank of Russia, US$300 million to VTB and US$169 million to the Asian-Pacific Bank (2010: US$511 million revenues from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$287 million to Sberbank of Russia, and US$224 million to Bank of Moscow). The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management consider there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

5. Revenue

	2011 US$'000	2010 US$'000
Sales of goods	**1,236,446**	586,628
Rendering of services	**23,469**	22,866
Rental income	**2,575**	2,522
	1,262,490	612,016
Investment income	**3,119**	6,525
	1,265,609	618,541

6. Operating expenses and income

	2011			2010		
	Before exceptional items US$'000	**Exceptional items US$'000**	**Total US$'000**	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
Net operating expenses (excluding items shown separately)	**718,483**	**–**	**718,483**	413,378	–	413,378
Impairment charges	**42,078**	**–**	**42,078**	9,897	34,944	44,841
Impairment of non-trading loans	**–**	**14,241**	**14,241**			
Central administration expenses	**92,941**	**(3,198)**	**89,743**	64,116	9,355	73,471
Foreign exchange losses	**9,833**	**–**	**9,833**	3,165	–	3,165
Gain on re-measuring existing interest in Omchak on acquisition	**–**	**–**	**–**	–	(28,882)	(28,882)
Gain on disposal of Group's interest in joint ventures and available-for-sale investment [(a)]	**–**	**(12,036)**	**(12,036)**	–	–	–
Net gain on acquisition of Jiatai Titanium [(b)]	**–**	**(1,439)**	**(1,439)**	–	–	–
	863,335	**(2,432)**	**860,903**	490,556	15,417	505,973

(a) Being the difference between the US$10 million aggregate proceeds and US$0.9 million cost of investment on Solovyevskiy Priisk as well as US$2.9 million accumulated losses of Odolgo JV (note 16).
(b) See note 16.

Net operating expenses (excluding items shown separately)

	2011 US$'000	2010 US$'000
Staff costs	**170,499**	108,483
Fuel	**73,343**	34,875
Materials	**132,820**	84,526
Depreciation	**132,202**	73,452
Electricity	**34,727**	20,723
Royalties	**67,599**	33,886
Smelting and transportation costs	**5,944**	3,518
Shipping costs	**33,704**	5,096
Professional fees	**12,583**	3,586
Other external services	**97,382**	45,776
Movement in deferred stripping, work in progress and bullion in process attributable to gold production	**(91,713)**	(46,827)
Insurance	**6,447**	4,329
Operating lease rentals	**1,670**	2,056
Provision for impairment of trade and other receivables	**1,862**	372
Bank charges	**2,526**	1,436
Office costs	**2,648**	1,992
Taxes other than income	**12,375**	8,056
Goods for resale	**19,665**	10,624
Business travel expenses	**3,259**	1,879
Other operating expenses	**13,637**	22,661
Other income	**(14,696)**	(7,121)
	718,483	413,378

6. Operating expenses and income continued

Impairment charges

Following the decision to abandon exploration of the Diagonalnoe area of the Malomir deposits, associated exploration and evaluation costs of US$5.2 million previously capitalised within mine development costs of Malomir were written off.

Following the decision to abandon exploration of certain licence areas, the following associated exploration and evaluation costs previously capitalised within intangible assets were written off:

- US$13.2 million exploration and evaluation costs associated with projects in Amur region (2010: US$9.9 million);
- US$15.2 million exploration and evaluation costs associated with projects in Yamal region (2010: nil);
- US$8.4 million exploration and evaluation costs associated with projects in other regions (2010: nil).

In 2010, the Group was advised that its joint venture partner Aluminium Corporation of China Limited ("Chinalco") has decided to withdraw from some of its non-core ventures and consequently no longer wishes to proceed with the Jiatai Titanium project. As of 31 December 2010, the Group had invested approximately US$20.8 million in the joint venture, and a further US$15.3 million on the titanium sponge processing technology, which was expected to be recharged to the joint venture. As a consequence the building of the plant was deferred and there was uncertainty as to the eventual outcome of the joint venture activities and the recoverability of the amounts invested. As a result, in 2010 the directors concluded that the most appropriate course of action was to provide for the impairment against the invested amounts of US$34.9 million. This impairment was allocated to intangible assets (US$0.7 million), property, plant and equipment (US$14.6 million) and interests in joint ventures (US$19.6 million). The impairment took into account the recoverable value of the Group's share of the joint venture of US$3.5 million which reflected the Group's 65% share of the cash within the joint venture, net of its liabilities. On 11 April 2011, the Group acquired the remaining 35% equity stake from the joint venture partner. See note 16 for further details.

Central administration expenses

	2011			2010		
	Before exceptional items US$'000	**Exceptional items US$'000**	**Total US$'000**	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
Staff costs	**57,542**	**–**	**57,542**	38,986	–	38,986
Professional fees	**7,683**	**(3,198) (a)**	**4,485**	6,677	9,355 (b)	16,032
Insurance	**1,924**	**–**	**1,924**	1,142	–	1,142
Operating lease rentals	**3,698**	**–**	**3,698**	3,641	–	3,641
Business travel expenses	**5,805**	**–**	**5,805**	5,266	–	5,266
Office costs	**2,081**	**–**	**2,081**	1,467	–	1,467
Other	**14,208**	**–**	**14,208**	6,937	–	6,937
	92,941	**(3,198)**	**89,743**	64,116	9,355	73,471

(a) Refund of costs incurred in relation to the listing of IRC Limited on the Stock Exchange of Hong Kong Limited.

(b) Costs incurred in relation to the listing of IRC Limited on the Stock Exchange of Hong Kong Limited.

7. Auditor's remuneration

The Group, including its overseas subsidiaries, obtained the following services from the Company's auditor and its associates:

	2011 US$'000	2010 US$'000
Audit fees and related fees		
Fees payable to the Company's auditor for the annual audit of the parent company and consolidated financial statements	**356**	395
Fees payable to the Company's auditor and its associates for other services to the Group:		
For the audit of the Company's subsidiaries as part of the audit of the consolidated financial statements	**311**	322
For the audit of subsidiary statutory accounts pursuant to legislation [a]	**580**	608
Other services pursuant to legislation – interim review [b]	**331**	160
	1,578	1,485
Non-audit fees		
Corporate finance services:		
Fees for reporting accountants services [c]	**–**	2,729
Other corporate finance services	**–**	93
Tax services	**146**	197
Other services	**68**	115
	214	3,134

(a) Including the statutory audit of subsidiaries in the UK and Cyprus as well as US$478 thousand (2010: US$459 thousand) payable for the audit of the consolidated financial statements of IRC Limited.

(b) Including US$125 thousand (2010: nil) payable for the interim review of the consolidated financial statements of IRC Limited.

(c) Fees payable in connection with the listing of the shares of IRC Limited on the Stock Exchange of Hong Kong Limited a significant component of which relates to the audit of historical financial information.

8. Staff costs

	2011 US$'000	2010 US$'000
Wages and salaries	**176,007**	123,689
Social security costs	**40,387**	20,768
Pension costs	**637**	427
Share-based compensation	**11,010**	2,585
	228,041	147,469
Average number of employees	**13,385**	11,789

9. Financial income and expenses

	2011			2010		
	Before exceptional items US$'000	**Exceptional items US$'000**	**Total US$'000**	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
Investment income						
Interest income	**3,119**	**–**	**3,119**	6,525	–	6,525
	3,119	**–**	**3,119**	6,525	–	6,525
Interest expense						
Interest on bank and other loans	**(24,626)**	**–**	**(24,626)**	(14,551)	–	(14,551)
Interest on convertible bonds	**(27,753)**	**–**	**(27,753)**	(23,269)	–	(23,269)
	(52,379)	**–**	**(52,379)**	(37,820)	–	(37,820)
Interest capitalised	**13,992**	**–**	**13,992**	7,253	–	7,253
Unwinding of discount on environmental obligation	**(1,254)**	**–**	**(1,254)**	(1,605)	–	(1,605)
	(39,641)	**–**	**(39,641)**	(32,172)	–	(32,172)
Other finance (losses)/gains						
Finance costs incurred in relation to listing of IRC Limited on the Stock Exchange of Hong Kong Limited [(a)]	**–**	**–**	**–**	–	(10,314)	(10,314)
Fair value (losses)/gains on derivative financial instruments	**(2,381)**	**–**	**(2,381)**	2,285	–	2,285
	(2,381)	**–**	**(2,381)**	2,285	(10,314)	(8,029)

(a) Being the agreed exit cost paid to facilitate the unwinding of the pre-IPO investment into IRC Limited in order to meet the requirements of the Stock Exchange of Hong Kong Limited placed on IRC Limited in connection with the listing.

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10. Taxation

	2011			2010		
	Before exceptional items US$'000	**Exceptional items (a) US$'000**	**Total US$'000**	Before exceptional items US$'000	Exceptional items (a) US$'000	Total US$'000
Current tax						
UK current tax	**–**	**–**	**–**	–	–	–
Russian current tax	**73,888**	**–**	**73,888**	23,429	–	23,429
	73,888	**–**	**73,888**	23,429	–	23,429
Deferred tax						
Reversal and origination of timing differences	**46,947**	**–**	**46,947**	22,799	–	22,799
Total tax charge	**120,835**	**–**	**120,835**	**46,228**	**–**	**46,228**

(a) Exceptional items were tax neutral.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2011 US$'000	2010 US$'000
Profit before tax	**361,324**	69,199
Tax at the UK corporation tax rate of 26.5% (2010: 28%)	**95,751**	19,376
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(34,186)**	(6,623)
Tax effect of share of results of joint ventures	**224**	887
Tax effect of expenses that are not deductible for tax purposes	**18,714**	26,934
Tax effect of tax losses for which no deferred income tax asset was recognised	**38,452**	18,622
Income not subject to tax	**(5,130)**	(8,090)
Utilisation of previously unrecognised tax losses	**(4,184)**	(4,415)
Foreign exchange movements in respect of deductible temporary differences	**17,422**	1,099
Other adjustments	**(6,228)**	(1,562)
Tax expense for the period	**120,835**	46,228

11. Earnings per share

	2011 US$'000	2010 US$'000
Profit for the period attributable to equity holders of Petropavlovsk PLC	**230,885**	19,777
Before exceptional items	**228,453**	45,508
Exceptional items	**2,432**	(25,731)
Interest expense on convertible bonds, net of tax	**20,398**	– [(a)]
Profit used to determine diluted earnings per share	**251,283**	19,777
Before exceptional items	**248,851**	45,508
Exceptional items	**2,432**	(25,731)
	No of shares	No of shares
Weighted average number of Ordinary Shares	**186,478,361**	183,815,830
Adjustments for dilutive potential Ordinary Shares:		
- assumed conversion of convertible bonds	**18,478,083**	– [(a)]
- share options in issue	**9,618**	23,966
Weighted average number of Ordinary Shares for diluted earnings per share	**204,966,062**	183,839,796
	US$	US$
Basic earnings per share	**1.24**	0.11
Before exceptional items	**1.23**	0.25
Exceptional items	**0.01**	(0.14)
Diluted earnings per share	**1.23**	0.11
Before exceptional items	**1.22**	0.25
Exceptional items	**0.01**	(0.14)

(a) Convertible bonds due 2015 which could potentially dilute basic earnings per share were not included in the calculation of diluted earnings per share because they were anti-dilutive.

As at 31 December 2011 and 2010, the Group had a potentially dilutive option issued to IFC to subscribe for 1,067,273 Ordinary Shares (note 26) which was anti-dilutive (2010: anti-dilutive) and therefore was not included in the calculation of diluted earnings per share.

During the year ended 31 December 2010, the Group had 8,312,463 potentially dilutive warrants in issue until these were exercised during the period or otherwise lapsed unexercised on 9 June 2010 which were anti-dilutive and therefore were not included in the calculation of diluted earnings per share.

12. Dividends

	2011 [(a)] US$'000	2010 US$'000
Interim dividend for the year ended 31 December 2011 of £0.05 per share paid on 11 November 2011	**15,164**	–
Final dividend for the year ended 31 December 2010 of £0.07 per share paid on 28 July 2011	**21,692**	–
Interim dividend for the year ended 31 December 2010 of £0.03 per share paid on 29 October 2010	**–**	8,771
Interim dividend for the year ended 31 December 2009 of £0.07 per share paid on 30 March 2010	**–**	19,003
	36,856	27,774

(a) Information on dividends proposed subsequent to 31 December 2011 is set out in note 36.

13. Goodwill

	2011 US$'000	2010 US$'000
Cost		
At 1 January	**22,161**	22,161
At 31 December	**22,161**	22,161
Accumulated impairment losses		
At 1 January	**(486)**	(486)
At 31 December	**(486)**	(486)
Carrying amount at 31 December	**21,675**	21,675

Goodwill primarily relates to the Group's investment in Irgiredmet and BMRP.

Goodwill recognised on acquisition of Irgiredmet and BMRP in the amounts of US$16 million and US$5 million, correspondingly, has been allocated to the group of cash generating units likely to benefit from acquisition-related synergies, which are those within the precious metals segment.

The recoverable amount of cash generating units is determined based on value-in-use calculations as set out in note 3.3.

14. Intangible assets

Included in intangible assets are capitalised exploration and evaluation expenditure and mineral rights acquired as set out below.

	Visokoe US$'000	Verkhne Aliinskoye US$'000	Tokur US$'000	Yamal deposits [(a)] US$'000	Flanks of Pokrovskiy US$'000	Kostengin-skoye US$'000	Other [(c)] US$'000	Total US$'000
At 1 January 2011	**36,826**	**67,148**	**62,955**	**77,834**	**18,808**	**29,136**	**54,155**	**346,862**
Additions	**5,379**	**3,957**	**381**	**7,056**	**16,334**	**4,424**	**33,167**	**70,698**
Impairment [(note 6)]	**–**	**–**	**–**	**(15,195)**	**(2,579)**	**–**	**(18,945)**	**(36,719)**
Transfer to mine development	**–**	**–**	**–**	**(18,260)**	**–**	**–**	**(613)**	**(18,873)**
Transfer to mining assets	**–**	**–**	**–**	**–**	**(28,587)** [(b)]	**–**	**(1,032)**	**(29,619)**
Reallocation and other transfers	**–**	**1,618**	**220**	**–**	**(226)**	**–**	**776**	**2,388**
At 31 December 2011	**42,205**	**72,723**	**63,556**	**51,435**	**3,750**	**33,560**	**67,508**	**334,737**

(a) Following approval of a new plan to develop gravel operations at the Novogodnee Monto area of the Yamal deposits by the Board Committee in June 2011 and commencement of development, associated amounts capitalised have been transferred to mine development costs within property, plant and equipment. Management will continue assessment of the development strategy for expansion of the gravel operations and gold mining operations as the next stage of development of the Yamal deposits. Until such time as the updated development strategy for the gold mining operations is in place and approved by the Board, associated amounts capitalised remain in intangible assets.

(b) Following completion of exploration and commencement of the mining activity at Alkagan-Adamovskaya, Sergeevskaya and Zheltunakskaya licence areas, the associated amounts capitalised have been transferred to mining assets within property, plant and equipment.

(c) Represent amounts capitalised in respect of a number of projects in the Amur and other regions.

	Visokoe US$'000	Verkhne Aliinskoye US$'000	Tokur US$'000	Yamal deposits US$'000	Flanks of Pokrovskiy US$'000	Kostengin-skoye US$'000	Other [(d)] US$'000	Total US$'000
At 1 January 2010	–	–	–	25,448	15,426	27,417	35,738	104,029
Additions	36,826	506	–	1,243	2,697	1,719	23,035	66,026
Assets acquired through business combinations	–	66,642	–	–	–	–	6,280	72,922
Impairment	–	–	–	–	–	–	(9,585) [(e)]	(9,585)
Transfer to mining assets	–	–	–	–	–	–	(2,106)	(2,106)
Reallocation and other transfers	–	–	62,955	51,143	685	–	793	115,576
At 31 December 2010	36,826	67,148	62,955	77,834	18,808	29,136	54,155	346,862

(d) Represent amounts capitalised in respect of a number of projects in the Amur and other regions.

(e) Following the decision to abandon exploration of the Gar-2, Shaman and Sungjar licence areas, associated exploration and evaluation costs of US$8.9 million previously capitalised within intangible assets were written off.

15. Property, plant and equipment

	Mine development costs US$'000	Mining assets US$'000	Non-mining assets US$'000	Capital construction in progress US$'000	Total US$'000
Cost					
At 1 January 2010	583,360	380,206	169,158	49,337	1,182,061
Additions	240,378	68,137	14,773	109,473	432,761
Acquired through business combinations	45	20,897	1,169	1,029	23,140
Interest capitalised (note 9) (a)	1,860	5,393	–	–	7,253
Close down and restoration cost capitalised (note 25)	–	894	–	–	894
Transfers from intangible assets	–	2,106	–	–	2,106
Transfers from capital construction in progress	225	63,509	12,152	(75,886)	–
Transfers from mine development	(336,235)	336,235	–	–	–
Disposals	(66)	(1,429)	(2,797)	(76)	(4,368)
Reallocation and other transfers	(44,259)	(63,050)	(7,238)	(3,082)	(117,629)
Foreign exchange differences	–	–	(363)	–	(363)
At 31 December 2010	445,308	812,898	186,854	80,795	1,525,855
Additions	**213,985**	**99,282**	**24,703**	**282,219**	**620,189**
Acquired through business combinations	**–**	**–**	**658**	**–**	**658**
Interest capitalised (note 9) (a)	**9,689**	**–**	**–**	**4,303**	**13,992**
Close down and restoration cost capitalised (note 25)	**–**	**23,266**	**–**	**–**	**23,266**
Transfers from intangible assets (note 14)	**18,873**	**29,619**	**–**	**–**	**48,492**
Transfers from capital construction in progress (b)	**1,386**	**202,399**	**25,700**	**(229,485)**	**–**
Transfers from mine development (c)	**(182,328)**	**149,064**	**–**	**33,264**	**–**
Transfers to mine development (d)	**6,925**	**–**	**(6,174)**	**(751)**	**–**
Disposals	**(703)**	**(2,958)**	**(4,313)**	**(93)**	**(8,067)**
Reallocation and other transfers	**(11,024)**	**10,283**	**1,039**	**(2,585)**	**(2,287)**
Foreign exchange differences	**–**	**–**	**(2,886)**	**–**	**(2,886)**
At 31 December 2011	**502,111**	**1,323,853**	**225,581**	**167,667**	**2,219,212**
Accumulated depreciation and impairment					
At 1 January 2010	1,516	81,663	33,392	–	116,571
Charge for the year	4,780	57,458	15,322	–	77,560
Disposals	(66)	(1,019)	(1,833)	–	(2,918)
Reallocation and other transfers	(3,741)	3,738	(224)	–	(227)
Impairment	–	–	–	14,572	14,572
Foreign exchange difference	–	–	(36)	–	(36)
At 31 December 2010	2,489	141,840	46,621	14,572	205,522
Charge for the year	**4,969**	**121,602**	**20,950**	**–**	**147,521**
Disposals	**(510)**	**(1,268)**	**(2,824)**	**–**	**(4,602)**
Reallocation and other transfers	**2,329**	**1,633**	**(3,635)**	**–**	**327**
Impairment (note 6)	**5,242**	**117**	**–**	**–**	**5,359**
Foreign exchange differences	**–**	**–**	**(527)**	**–**	**(527)**
At 31 December 2011	**14,519**	**263,924**	**60,585**	**14,572**	**353,600**
Net book value					
At 31 December 2010 (e)	442,819	671,058	140,233	66,223	1,320,333
At 31 December 2011 (e)	**487,592**	**1,059,929**	**164,996**	**153,095**	**1,865,612**

(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 6.8% (2010: 6.3%).

(b) Being costs primarily associated with continuous development of Malomir and Pioneer projects.

(c) Following commencement of commercial production at Albyn, associated mine development costs were transferred to the mining assets.

(d) Being costs associated with development of gravel operations at the Novogodnee Monto area of the Yamal deposits.

(e) Property, plant and equipment with a net book value of US$211.7 million (31 December 2010: US$75.2 million) have been pledged to secure borrowings of the Group.

16. Interests in joint ventures

The Group has various interests in jointly controlled entities as set out in note 38. These interests are accounted for in accordance with accounting policies set out in note 2.8.

	2011 US$'000	2010 US$'000
At 1 January	**8,446**	31,886
Acquisition of a subsidiary [a]	**(3,215)**	(8,663)
Contribution to share capital	**–**	4,731 [c]
Disposals	**2,975** [b]	–
Transfers from property, plant and equipment	**–**	1,826
Transfers from non-current trade and other receivables	**–**	355
Impairment (note 6)	**–**	(19,655)
Share of joint ventures' loss	**(1,360)**	(3,168)
Unrealised loss	**–**	249
Foreign exchange differences	**240**	885
At 31 December	**7,086**	8,446

(a) In accordance with the terms of the joint venture agreement between the Group and Aluminium Corporation of China Limited ("Chinalco") signed and approved by the Chinese Ministry of Commerce on 12 August 2008 for establishment of a jointly controlled Chinese titanium sponge processing joint venture project, Heilongjiang Jiatai Titanium Co. Limited ("Jiatai Titanium") was established in the PRC with 65% interest held by the Group and the remaining 35% held by a joint venture partner. Unanimous consent is required from both parties for all strategic financial and operating decisions relating to the Jiatai Titanium. On 11 April 2011, the Group acquired the remaining 35% equity stake from the joint venture partner for a cash consideration of US$11.5 million pursuant to which Jiatai Titanium became a subsidiary of the Group. There was an excess of the assets acquired compared with the consideration paid of US$1.4m which has been recognised as an exceptional gain (note 6).

(b) Being net liabilities of Odolgo JV at the date of disposal (note 6).

(c) On 19 February 2009, the Group signed an agreement with Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited to establish a Chinese Vanadium Production Joint Venture project (the "Vanadium Joint Venture"), Heilongjiang Jianlong Vanadium Industries Co. Limited, which was incorporated in the PRC. The Group holds 46% of the joint venture and the remaining 49% and 5% are held by Heilongjiang Jianlong Steel Company Limited and Kuranakii Investment Co. Limited respectively, with the parties exercising joint control as the strategic financial and operating decisions relating to the Vanadium Joint Venture require the unanimous consent from the three parties.

The summary of the financial information of the Group's jointly controlled entities is set out below.

	2011 US$'000	2010 US$'000
The Group's share of joint ventures' net assets		
Non-current assets	**13,530**	8,420
Current assets	**6,018**	12,707
Current liabilities	**(5,296)**	(3,281)
Non-current liabilities	**(7,166)**	(9,400)
	7,086	8,446
The Group's share of joint ventures' (loss)/profit for the period		
Sales revenue	**–**	5,725
Net operating expenses	**(1,430)**	(9,811)
Operating loss	**(1,430)**	(4,086)
Financial income	**27**	1,087
Financial expenses	**(68)**	(700)
Taxation	**111**	(1)
Non-controlling interests	**–**	532
	(1,360)	(3,168)

17. Available-for-sale investments

	2011 US$'000	2010 US$'000
Listed securities		
Rusoro Mining Limited	**543**	2,484
Unlisted securities [(a)]		
Solovyevskiy Priisk	**–**	939
Other	**18**	20
	561	3,443

(a) The value of these investments are recorded at cost as, in the opinion of the Directors, fair values cannot be reliably measured as there are no active markets with quoted market prices.

18. Other non-current assets

	2011 US$'000	2010 US$'000
Deferred debt transaction costs [(a)]	**29,430**	28,298
Restricted bank deposit [(b)]	**6,000**	–
Other assets	**2,441**	898
	37,871	29,196

(a) Paid in connection with ICBC facility (note 23).
(b) See note 23.

19. Inventories

	2011 US$'000	2010 US$'000
Current		
Construction materials	**16,796**	14,950
Stores and spares	**149,565**	85,332
Work in progress	**107,268**	44,399
Deferred stripping costs	**47,114**	51,052
Bullion in process	**9,917**	2,218
	330,660	197,951
Non-current		
Work in progress [(a)]	**16,828**	8,882
Deferred stripping costs [(b)]	**26,359**	2,729
	43,187	11,611

(a) Ore stockpiles that are not planned to be processed within twelve months after the reporting period.
(b) Production stripping related to the ore extraction which is to be undertaken within more than twelve months after the reporting period.

20. Trade and other receivables

	2011 US$'000	2010 US$'000
Current		
VAT recoverable	**109,250**	76,468
Advances to suppliers	**63,856**	32,677
Rusoro exchangeable loan [(a)]	**–**	8,833
Trade receivables [(b)]	**11,442**	8,761
Advances paid on resale and commission contracts [(c)]	**1,248**	–
Other loans receivable	**5**	1,093
Interest accrued	**272**	210
Other debtors [(d)]	**22,904**	15,471
	208,977	143,513

(a) Net of provision for impairment of US$10.2 million (2010: nil).
On 10 June 2008, the Group participated in an US$80 million senior secured loan to Venezuela Holdings (BVI) Limited, a wholly-owned subsidiary of Rusoro Mining Limited ("Rusoro"), exchangeable into Rusoro common shares at a price of C$1.25 and repayable on 10 June 2010 (the "Rusoro Exchangeable Loan"). The Group subscribed for US$20 million of the Rusoro Exchangeable Loan and the remainder of the funds was provided by other parties (the "Lenders"). On 10 June 2010, the parties entered into the Amendment and Restatement Agreement relating to the Rusoro Exchangeable Loan agreement whereby the Repayment Date in relation to US$30 million principal was extended until 10 June 2011. Exchange option has been extended together with the terms of the loan and the exchange price was adjusted to C$0.40. The loan carries an interest rate of 10% per-annum payable semi-annually in arrears. The loan component is measured at amortised cost, whilst the exchange option is recorded as a derivative financial asset and is measured at fair value.

(b) Net of provision for impairment of US$1.1 million (2010: US$2.2 million).
Trade receivables are due for settlement between one and six months. Included in trade receivables are individual balances totalling US$0.01 million (2010: US$0.6 million) which are past due but not impaired as the amounts are still considered recoverable.

(c) Amounts included in advances paid on resale and commission contracts relate to services performed by the Group's subsidiary, Irgiredmet, in its activity to procure materials such as reagents, consumables and equipment for third parties.

(d) Net of provision for impairment of US$5.6 million (2010: nil).

There is no significant concentration of credit risk with respect to trade and other receivables. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by the Board of Directors. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

21. Cash and cash equivalents

	2011 US$'000	2010 US$'000
Cash at bank and in hand	**105,081**	62,808
Short-term bank deposits	**108,475**	258,178
	213,556	320,986

22. Trade and other payables

	2011 US$'000	2010 US$'000
Trade payables	**37,684**	32,281
Advances from customers	**7,724**	3,513
Advances received on resale and commission contracts [(a)]	**6,370**	3,431
Outstanding purchase consideration for 32.5% and 7.5% in Omchak	**–**	12,000
Accruals and other payables	**83,126**	91,513
	134,904	142,738

(a) Amounts included in advances paid on resale and commission contracts at 31 December 2011 and 31 December 2010 relate to services performed by the Group's subsidiary, Irgiredmet, in its activity to procure materials such as reagents, consumables and equipment for third parties.

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

23. Borrowings

	2011 US$'000	2010 US$'000
Borrowings at amortised cost		
Convertible bonds [(a)]	**338,812**	326,258
Bank loans [(b)]	**659,630**	161,607
ICBC facility [(c)]	**6,343**	–
Other loans [(b)]	**2,053**	4,253
	1,006,838	492,118
Amount due for settlement within 12 months	**216,430**	93,104
Amount due for settlement after 12 months	**790,408**	399,014
	1,006,838	492,118

(a) In February 2010, the Group issued US$380 million of convertible bonds due on 18 February 2015 ("the Bonds"). The Bonds were issued at par by the Company's wholly owned-subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The Bonds carry a coupon of 4.00% payable semi-annually in arrears and are convertible into redeemable preference shares of Petropavlovsk 2010 Limited which are guaranteed by and will be exchangeable immediately upon issuance for Ordinary Shares in the Company. The conversion price has been set at £12.9345 per share, subject to adjustment for certain events and adjusted to £12.66 with effect from 29 June 2011 for each US$100,000 principal amount of a Bond, and the conversion exchange rate has been fixed at US$1.6244 per £1. The Bonds were admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange on 19 February 2010.

The net proceeds received from the issue of the convertible bonds were split between the liability component and the equity component of US$59 million representing the fair value of the embedded option to convert the liability into equity of the Group. The liability component of the Bonds is measured at amortised cost. The interest charged was calculated by applying an effective interest rate of 8.65% to the liability component.

As at 31 December 2011, the fair value of the Bonds, calculated by applying the effective interest rate of 10.5% to the liability component of the Bonds, amounted to US$322.7 million (2010: the carrying value of the Bonds approximated their fair value).

(b) Bank and other loans outstanding as at 31 December 2011 include liabilities of US$168.3 million (2010: US$102.1 million) which are secured against certain items of property, plant and equipment of the Group (note 15).

The weighted average interest rate paid during the year ended 31 December 2011 was 6% (2010: 7%).

The carrying value of the bank loans approximated their fair value at each period end.

As at 31 December 2011, bank loans with an aggregate carrying value of US$ 296.2 million (2010: nil) contain financial covenants requiring the maintenance of the consolidated interest cover ratio of not less than 4:1 and consolidated leverage ratio of no greater than 4:1.

As at 31 December 2011, the amounts undrawn under the bank loans comprised US$129.6 million (2010: US$15.2 million).

(c) On 6 December 2010, LLC Kimkano-Sutarsky Mining and Beneficiation Plant ("K&S"), a subsidiary of the Group, entered into the HK$3.11 billion (equivalent to US$400 million) Engineering Procurement and Construction Contract with China National Electric Engineering Corporation for the construction of the Group's mining operations at K&S. On 13 December 2010, K&S entered into a project finance facility agreement with the Industrial and Commercial Bank of China Limited ("ICBC") (the "ICBC Facility Agreement") pursuant to which ICBC will lend US$340 million to K&S to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility will be charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The facility is guaranteed by the Company and is repayable over a period of 11 years from 2014 and is fully repayable by 2022. On 14 December 2011, the Group made the first drawdown amounting to US$6.9 million and the loan is carried at amortised cost with effective interest rate at 5.63% per annum. As at 31 December 2011, US$6 million was deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement and is presented as restricted deposit under non-current assets.

ICBC Facility Agreement contains financial covenants requiring the maintenance of the consolidated interest cover ratio of not less than 3.5:1 and consolidated leverage ratio of no greater than 4:1.

As at 31 December 2011, the amounts undrawn under the ICBC Facility Agreement comprised US$333 million (2010: US$340 million).

24. Deferred taxation

	2011 US$'000	2010 US$'000
At 1 January	**126,768**	88,260
Deferred tax charged to income statement	**46,947**	22,799
Deferred tax recognised as part of business combinations	**–**	15,829
Deferred tax charged/(credited) to equity	**153**	(43)
Exchange differences	**(399)**	(77)
At 31 December	**173,469**	126,768
Deferred tax assets	**2,562**	6,774
Deferred tax liabilities	**(176,031)**	(133,542)
Net deferred tax liability	**(173,469)**	(126,768)

	At 1 January 2011 US$'000	Charged/ (credited) to the income statement US$'000	Charged/ (credited) directly to equity US$'000	Exchange differences US$'000	At 31 December 2011 US$'000
Property, plant and equipment	**86,944**	**45,646**	**–**	**(90)**	**132,500**
Inventory	**14,164**	**15,559**	**–**	**24**	**29,747**
Capitalised exploration and evaluation expenditure	**2,363**	**(5,528)**	**–**	**–**	**(3,165)**
Derivative financial instruments	**321**	**(321)**	**–**	**–**	**–**
Fair value adjustments	**23,233**	**(1,185)**	**–**	**(273)**	**21,775**
Tax losses	**(4,137)**	**1,614**	**–**	**–**	**(2,523)**
Other temporary differences	**3,880**	**(8,838)**	**153**	**(60)**	**(4,865)**
	126,768	**46,947**	**153**	**(399)**	**173,469**

	At 1 January 2010 US$'000	Charged/(credited) to the income statement US$'000	Charged/(credited) directly to equity US$'000	Acquisition of subsidiary US$'000	Exchange differences US$'000	At 31 December 2010 US$'000
Property, plant and equipment	82,182	4,440	–	335	(13)	86,944
Inventory	8,117	5,449	–	596	2	14,164
Capitalised exploration and evaluation expenditure	(7,710)	8,658	–	1,415	–	2,363
Derivative financial instruments	361	(40)	–	–	–	321
Fair value adjustments	9,999	(592)	–	13,882	(56)	23,233
Tax losses	(7,319)	3,182	–	–	–	(4,137)
Other temporary differences	2,630	1,702	(43)	(399)	(10)	3,880
	88,260	22,799	(43)	15,829	(77)	126,768

The Group did not recognise deferred income tax assets in respect of tax losses comprising US$384.8 million (2010: US$210.4 million) that can be carried forward against future taxable income. Tax losses of US$134.5 million can be carried forward indefinitely. Tax losses of US$248.8 million substantially expire between 2016 and 2021.

The Group did not recognise deferred income tax assets of US$35.4 million (2010: US$41.8 million) in respect of temporary differences arising on certain capitalised development costs.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries and associates and interests in joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. Unremitted earnings comprised in aggregate US$827.3 million (2010: US$512.8 million).

25. Provision for close down and restoration costs

	2011 US$'000	2010 US$'000
At 1 January	**11,085**	8,655
Amounts capitalised	**10,042**	770
Unwinding of discount	**1,254**	1,605
Change in estimates	**13,224**	124
Foreign exchange differences	**(647)**	(69)
At 31 December	**34,958**	11,085

The Group recognised provisions in relation to close down and restoration costs for the following mining sites:

	2011		2010	
	Provision recognised US$' 000	**Expected timing of the cash outflows from 31 December [(a)]**	Provision recognised US$' 000	Expected timing of the cash outflows from 31 December [(a)]
Pokrovskiy	**4,990**	**at least 4 years**	3,507	at least 5 years
Pioneer	**4,979**	**at least 10 years**	3,200	at least 9 years
Malomir	**10,843**	**at least 11 years**	772	at least 3 years
Albyn	**10,053**	**at least 6 years**	–	–
Kuranakh	**4,093**	**at least 10 years**	3,606	at least 11 years

(a) Based on the Group's mining plan.

Provision recognised represents the present value of estimated expenditure that will be incurred arrived at using the long-term risk-free pre-tax cost of borrowing.

26. Share capital

	2011		2010	
	No of shares	**US$'000**	No of shares	US$'000
Allotted, called up and fully paid				
At 1 January	**187,860,093**	**2,891**	182,079,767	2,805
Issued during the period	**–**	**–**	5,780,326	86
At 31 December	**187,860,093**	**2,891**	187,860,093	2,891

The Company has one class of Ordinary Shares which carry no right to fixed income.

The Company has an option issued to the IFC on 22 April 2009 on acquisition of Aricom plc to subscribe for 1,067,273 ordinary shares at an exercise price of £11.84 per share, subject to adjustments. The option expires on 25 May 2015.

27. Own shares

	2011 US$'000	2010 US$'000
At 1 January	**10,675**	14,003
Vesting of Replacement LTIP	**–**	(3,328)
Vesting of awards within Petropavlovsk PLC LTIP	**(231)**	–
At 31 December	**10,444**	10,675

Own shares represent 1,351,806 Ordinary Shares held by the EBT (2010: 1,381,732) to provide benefits to employees under the Long-Term Incentive Plan (note 30).

28. Notes to the cash flow statement

Reconciliation of profit before tax to operating cash flow

	2011 US$'000	2010 US$'000
Profit before tax	**361,324**	69,199
Adjustments for:		
Share of results in joint ventures	**1,360**	3,168
Investment income	**(3,119)**	(6,525)
Interest expense	**39,641**	32,172
Other finance losses	**2,381**	8,029
Share-based payments	**11,010**	2,585
Depreciation	**132,202**	73,452
Gain on re-measurement of equity interest in Omchak on acquisition	**–**	(28,882)
Impairment charges	**42,078**	44,841
Impairment of non-trading loans	**14,241**	–
Provision for impairment of trade and other receivables	**1,862**	–
Loss on disposals of property, plant and equipment	**2,118**	366
Profit on disposal of the Group's interests in joint ventures and available-for-sale investments	**(12,036)**	–
Net gain on acquisition of Jiatai Titanium	**(1,439)**	–
Exchange (gains)/losses in respect of investment activity	**(940)**	171
Exchange losses in respect of cash and cash equivalents	**58**	2,450
Other non-cash items	**(3,450)**	285
Changes in working capital:		
Increase in trade and other receivables	**(104,093)**	(64,442)
Increase in inventories	**(158,137)**	(75,761)
Increase in trade and other payables	**31,226**	19,386
Net cash generated from operations	**356,287**	80,494

Non-cash transactions
There have been no significant non-cash transactions during the years ended 31 December 2011 and 2010.

29. Related parties

Related parties the Group entered into transactions with during the reporting period

OJSC Asian-Pacific Bank ('Asian-Pacific Bank'), V.H.M.Y. Holdings Limited, OJSC M2M Private Bank ('M2M Private Bank') and OJSC Kamchatprombank ('Kamchatprombank') are considered related parties as Mr Peter Hambro and Dr Pavel Maslovskiy have an interest in these companies.

The Petropavlovsk Foundation for Social Investment (the 'Petropavlovsk Foundation') is considered to be a related party due to the participation of the key management of the Group in the governing board of the Petropavlovsk Foundation and presence in its board of guardians.

OJSC Apatit ('Apatit'), a subsidiary of OJSC PhosAgro ('PhosAgro'), is considered to be a related party due to PhosAgro's minority interest and significant influence in the Group's subsidiary Giproruda.

OJSC Krasnoyarskaya GGK ('Krasnoyarskaya GGK') is considered to be a related party due to this entity's minority interest and significant influence in the Group's subsidiary Verkhnetisskaya GRK.

Vanadium Joint Venture is a joint venture of the Group and hence is a related party.

Odolgo Joint Venture was a joint venture of the Group and hence was considered to be a related party until it was disposed of in May 2011.

Titanium Joint Venture was a joint venture of the Group and hence was considered to be a related party until it was acquired and became a subsidiary to the Group in April 2011 (note 16).

Omchak Joint Venture was a joint venture of the Group and hence was considered to be a related party until it was acquired and became a subsidiary to the Group in July 2010.

Uralmining is an associate of the Group and hence is a related party.

Transactions with related parties the Group entered into during the years ended 31 December 2011 and 2010 are set out below.

Trading Transactions

Related party transactions the Group entered into that relate to the day-to-day operation of the business are set out below.

	Sales to related parties		Purchases from related parties	
	2011 US$'000	2010 US$'000	**2011 US$'000**	2010 US$'000
Asian-Pacific Bank				
Sales of gold and silver	**168,578**	25,617	**–**	–
Other	**281**	723	**1,064**	546
	168,859	26,340	**1,064**	546
Trading transactions with other related parties				
Engineering services provided to Apatit	**1,732**	3,974	**–**	–
Exploration services provided by Krasnoyarskaya GGK	**–**	–	**13,825**	7,216
Other transactions with Krasnoyarskaya GGK	**1,132**	200	**–**	–
Rent, insurance and other transactions with other entities in which Mr Peter Hambro and/or Dr Pavel Maslovskiy have a controlling interest or exercise a significant influence	**229**	1,214	**6,093**	5,866
Entities controlled by key management	**–**	–	**113**	–
Joint ventures and associates	**562**	455	**–**	26
Other	**465**	–	**–**	–
	4,120	5,843	**20,031**	13,108

During the year ended 31 December 2011, the Group made US$3.4 million charitable donations to the Petropavlovsk Foundation (2010 US$2.5 million).

29. Related parties continued

The outstanding balances with related parties at 31 December 2011 and 2010 are set out below.

	Amounts owed by related parties at 31 December		Amounts owed to related parties at 31 December	
	2011 US$'000	2010 US$'000	**2011 US$'000**	2010 US$'000
Krasnoyarskaya GGK	**87**	263	**1,019**	1,087
Other entities in which Mr Peter Hambro and/or Dr Pavel Maslovskiy have a controlling interest or exercise a significant influence	**60**	330	**1,713**	1,840
Apatit	**1,480**	925	**–**	–
Joint ventures and associates	**–**	75	**–**	113
Asian-Pacific Bank	**7**	–	**–**	–
	1,634	1,593	**2,732**	3,040

Banking arrangements
The Group has current and deposit bank accounts with Asian-Pacific Bank.

The bank balances at 31 December 2011 and 2010 are set out below:

	2011 US$'000	2010 US$'000
Asian-Pacific Bank	**19,972**	35,408

Financing transactions
During the year ended 31 December 2011, the Group received a US$15.1 million unsecured loan from Asian-Pacific Bank. The loan bears 10% interest and is repayable in October 2012.

During the year ended 31 December 2010, the Group received an interest-free unsecured loan from Krasnoyarskaya GGK totalling US$2.0 million. The loan principal was outstanding as at 31 December 2011 and 31 December 2010.

The Group also invested US$0.7 million in the associate through equity (2010: the Group invested US$1 million in the associate through loans advanced).

Key management compensation
Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of that entity.

	2011 US$'000	2010 US$'000
Wages and salaries	**14,347**	11,440
Pension costs	**325**	164
Share-based compensation	**2,869**	1,279
	17,541	12,883

30. Share-based payments

The Group operates various equity-settled share awards schemes. The details of share awards outstanding are set out below.

Petropavlovsk PLC

	Share option scheme		Petropavlovsk PLC LTIP awards			
			Granted on 25 June 2009		Granted on 12 May 2011	
	Number of Ordinary Shares	Weighted average exercise price £	Number of Ordinary Shares	Weighted average exercise price £	Number of Ordinary Shares	Weighted average exercise price £
At 1 January 2011	**50,000**	**6.72**	**462,961**	**–**	**–**	**–**
Granted during the year	**–**	**–**	**–**	**–**	**1,524,347**	**–**
Forfeited during the year	**–**	**–**	**–**	**–**	**(129,313)**	**–**
Exercised and vested during the year	**–**	**–**	**–**	**–**	**(29,926)**	**–**
Expired during the year	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2011	**50,000**	**6.72**	**462,961**	**–**	**1,365,108**	**–**

Employee share option scheme

As part of business combination with Aricom plc, the outstanding options granted under the Share Option Scheme of Aricom plc to its Directors in prior years were exchanged for options over Ordinary Shares of Petropavlovsk PLC, exercisable during the period since 19 July 2009 until 19 July 2012. No further options will be granted under the Share Option Scheme by the Group.

The fair value of share awards under the Employee share option scheme are determined using the Black Scholes model at the date of grant using the assumptions detailed in the table below.

	Employee share option scheme
Date of grant	**22 April 2009**
Share price at the date of grant, £	**5.20**
Exercise price, £	**6.72**
Expected volatility, %	**102.14**
Expected life in years	**0.24**
Risk-free rate, %	**0.86**
Expected dividends, £	**–**
Fair value per award, £	**0.57**

Petropavlovsk PLC Long-Term Incentive Plan (the "Petropavlovsk PLC LTIP")

The Group established a new Petropavlovsk PLC LTIP which was approved by the shareholders of the Company on 25 June 2009 and includes the following awards:

- Share Option Award, being a right to acquire a specified number of Ordinary Shares in the Company at a specified exercise price;
- Performance Share Award, being a right to acquire a specified amount of Ordinary Shares in the Company at nil cost; and
- Deferred Bonus Award.

Initial performance share awards under the Petropavlovsk PLC LTIP were granted on 25 June 2009 with 482,961 shares allocated to certain Executive Directors and members of senior management of the Group, out of which 296,297 shares are held by the EBT and the Company assumed the obligation to issue the remaining shares upon vesting of the LTIP.

30. Share-based payments continued

Performance Share Awards granted on 25 June 2009 vest or become exercisable subject to the following provisions:

- 50% of the shares subject to the award may be acquired based on a condition relating to total shareholder return (the "TSR Condition"); and
- 50% of the shares subject to the award may be acquired based on specific conditions relating to the Group's business development and strategic plans (the "Operating Conditions").

The TSR Condition relates to growth in TSR over a three year period relative to the TSR growth of companies in a peer group of listed international mining companies selected upon establishment of the Petropavlovsk PLC LTIP (the "Comparator Group") over the same period.

The TSR Condition provides for the award to vest or become exercisable as follows:

	% of the award vesting
Within top decile	50%
At median	25%
Below median	–

The detailed requirements to the Operating Conditions are determined by the Remuneration Committee and will be measured over a three year period from the date of grant.

The fair value of performance share awards was determined using the Black-Scholes model at the date of grant in relation to the proportion of the awards vesting based on the operating performance conditions and using the Monte Carlo model in relation to the proportion of the awards vesting based on the TSR condition. The relevant assumptions are set out in the table below.

	Petropavlovsk PLC LTIP performance share awards	
	Vesting based on operating performance conditions	Vesting based on TSR Condition
Date of grant	25 June 2009	25 June 2009
Number of performance share awards granted	241,480	241,481
Share price at the date of grant, £	6.0	6.0
Exercise price, £	–	–
Expected volatility, %	72.98	72.98
Expected life in years	3	3
Risk-free rate, %	2.13	2.13
Expected dividends yield, %	–	–
Expected annual forfeitures	–	–
Fair value per award, £	4.463	6.000

On 12 May 2011, the Group has granted further performance share awards under the Petropavlovsk PLC LTIP with 1,524,347 shares allocated to certain Executive Directors, members of senior management and certain other employees of the Group, out of which 1,085,435 shares are held by the EBT and the Company assumed the obligation to issue the remaining shares upon vesting of the LTIP.

Performance share awards vest or become exercisable subject to the following provisions:

– 70% of the shares subject to the award may be acquired at nil cost based on a condition relating to the total shareholder return (the "TSR") of the Company compared with the TSR of a selected comparator group (the "First TSR Condition"); and

– 30% of the shares subject to the award may be acquired at nil cost based on a condition relating to growth in TSR of the Company compared to the FTSE 350 mining index (the "Second TSR Condition").

The First TSR Condition relates to growth in TSR over a three year period relative to the TSR growth of companies in a selected peer group of listed international mining companies (the "Comparator Group") over the same period.

The First TSR Condition provides for the award to vest or become exercisable as follows:

	% of the award vesting
Within top decile	**70%**
At median	**35%**
Below median	**–**

The Second TSR Condition relates to growth in TSR over a three year period relative to the growth in TSR of companies in FTSE 350 mining index (the "Index Comparator Group") over the same period.

The Second TSR Condition provides for the award to vest or become exercisable as follows:

	% of the award vesting
At median +13.5% p.a.	**30%**
At median	**15%**
Below median	**–**

The fair value of share awards was determined using the Monte Carlo model. The relevant assumptions are set out in the table below.

	Petropavlovsk PLC LTIP performance share awards	
	Vesting based on the First TSR Condition	Vesting based on the Second TSR Condition
Date of grant	**12 May 2011**	**12 May 2011**
Number of performance share awards granted	**1,067,043**	**457,304**
Share price at the date of grant, £	**8.15**	**8.15**
Exercise price, £	**–**	**–**
Expected volatility, %	**73.32**	**73.32**
Expected life in years	**3**	**3**
Risk-free rate, %	**1.53**	**1.53**
Expected dividends yield, %	**–**	**–**
Expected annual forfeitures	**–**	**–**
Fair value per award, £	**6.16**	**5.77**

30. Share-based payments continued

IRC Limited

Under the LTIP of IRC Limited, which was established on 11 August 2010, selected employees and Directors of the IRC Group (the "Selected Grantees") are to be awarded shares of IRC Limited which have been purchased by the EBT operated in conjunction with the IRC LTIP. Upon the IRC management's recommendation, the number of shares awarded to the Selected Grantees shall be determined, together with the vesting dates for various tranches, by the Board of IRC Limited. Any LTIP awarded to a Selected Grantee who is a Director of the Company shall be subject to the Board's approval following a recommendation from the Remuneration Committee of the Board.

The scheme has a three-year vesting period and is subject to the following vesting conditions:

- 25% of the award vesting is relating to the achievement of certain production targets;
- 25% of the award vesting is relating to profitability;
- 25% of the award vesting is relating to the growth and development of the IRC Group; and
- 25% of the award vesting is relating to the meeting of certain health, safety and environmental requirements.

On 3 November 2010, 91.1 million shares of IRC Limited were awarded to Selected Grantees under the IRC LTIP. The fair value of the services rendered as consideration of the awarded shares was measured by reference to the fair value of the awarded shares at the award dates of US$19.2 million (determined based on the closing share price of IRC Limited as of 3 November 2010 of HK$1.64 per share) which is recognised in the consolidated income statement over the vesting period.

On 1 August 2011, a further 2,332,000 shares of IRC Limited were awarded to Selected Grantees under the IRC LTIP. The fair value of the services rendered as consideration of the awarded shares was measured by reference to the fair value of the awarded shares at the award dates of approximately US$536,000 (determined based on the closing share price of the Company as of 1 August 2011 of HK$1.79 per share) which is recognised in the consolidated income statement over the vesting period.

31. Analysis of net debt

	At 1 January 2011 US$'000	Acquisition of subsidiaries US$'000	Net cash movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2011 US$'000
Cash and cash equivalents	320,986	9,350	(116,722)	(58)	–	213,556
Debt due within one year	(93,104)	–	(55,903)	(316)	(67,107)	(216,430)
Debt due after one year	(399,014)	–	(431,331)	(31)	39,968	(790,408)
Restricted bank deposit	–	–	6,000	–	–	6,000
Net debt	(171,132)	9,350	(597,956)	(405)	(27,139) [(a)]	(787,282)

(a) Being amortisation of borrowings.

32. Financial instruments and financial risk management

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group consists of net debt (as detailed in note 31) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2011, the capital comprised US$2.7 billion (2010: US$1.9 billion).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group adopts a modular approach in developing its projects in order to minimise upfront capital expenditure and related funding requirements. The Group manages in detail its funding requirements on a 12 month rolling basis and maintains a five year forecast in order to identify medium-term funding needs. Following the listing of IRC Limited on the Stock Exchange of Hong Kong Limited, its capital is managed separately by the Independent Board of IRC Limited.

The Group is not subject to any externally imposed capital requirements.

Significant accounting policies
Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the Consolidated Financial Statements.

Categories of financial instruments

	2011 US$'000	2010 US$'000
Financial assets		
Cash and cash equivalents	**213,556**	320,986
Fair value through profit or loss – derivative financial instruments	**–**	2,381
Loans and receivables	**39,111**	35,023
Available-for-sale investments	**561**	3,443
Financial liabilities		
At amortised cost – trade and other payables	**85,218**	135,669
At amortised cost – borrowings	**1,006,838**	492,118

Financial risk management
The Group's activities expose it to interest rate risk, foreign currency risk, risk of change in the commodity prices, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, gold price risk, credit risk and investment of excess liquidity.

Interest rate risk
The Group's interest rate risk arises primarily from borrowings. The Group is exposed to cash flow interest rate risk through borrowing at floating interest rates and to fair value interest rate risk through borrowing at fixed interest rates. At present, the Group does not undertake any interest rate hedging activities.

The sensitivity analysis below has been determined based on exposure to interest rates for the average balance of floating interest-bearing borrowings.

If interest rates had been 1% higher/lower and all other variables held constant, the Group's profit for the year ended 31 December 2011 would decrease/increase by US$0.87 million (2010: decrease/increase by US$0.65 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from fluctuations in currencies the Group transacts, primarily US Dollars, GB Pounds Sterling and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging.

32. Financial instruments and financial risk management continued

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at period end are as follows:

	Assets		Liabilities	
	2011 US$'000	2010 US$'000	**2011 US$'000**	2010 US$'000
Russian Roubles	**260,573**	189,451	**110,150**	172,879
US Dollars [(a)]	**12,778**	3,763	**1,822**	9
GB Pounds Sterling	**2,269**	13,031	**14,179**	20,154
Other currencies	**4,014**	2,485	**135**	90

(a) US Dollar denominated monetary assets and liabilities in Group companies with Rouble functional currency.

The following table illustrates the Group's profit sensitivity to the fluctuation of the major currencies in which it transacts. A 25% movement has been applied to each currency in the table below for the year ended 31 December 2011, representing management's assessment of a reasonably possible change in foreign exchange currency rates (2010: a 25% movement was applied to each currency in the table).

	2011 US$'000	2010 US$'000
Russian Roubles currency impact	**37,606**	4,143
GB Pounds Sterling currency impact	**2,978**	1,781
US Dollar currency impact	**2,739**	938
Other currencies	**970**	599

Credit risk

The Group's principal financial assets are cash and cash equivalents, comprising current accounts, amounts held on deposit with financial institutions and investments in money market and liquidity funds. In the case of deposits and investments in money market and liquidity funds, the Group is exposed to a credit risk, which results from the non-performance of contractual agreements on the part of the contract party.

The credit risk on liquid funds held in current accounts and available on demand is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies, with the exception of Asian-Pacific Bank, which does not have an officially assigned credit rating. Having performed a high level due diligence, management does not consider the credit risk associated with Asian-Pacific Bank to be high. Asian-Pacific Bank has a wide network of branches in the Amur region and, therefore, is extensively used by the entities of the precious metals segment (note 29).

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets recorded in the Consolidated Financial Statements. The major financial assets at the balance sheet date are cash and cash equivalents held with the counterparties as set out below.

Counterparty	Credit rating	**Carrying amount at 31 December 2011 US$'000**	Carrying amount at 31 December 2010 US$'000
Royal Bank of Scotland	A	**62,986**	160,237
UBS	A	**55,270**	49,142
Sberbank	BBB	**45,457**	36,540
Asian-Pacific Bank	–	**19,972**	35,408
Unicredit Bank	A–	**8,259**	26,508
VTB	BBB	**6,599**	5,614

Commodity price risk

The Group generates most of its revenue from the sale of gold and iron ore concentrate. The Group's policy is to sell its products at the prevailing market price. The Group does not hedge its exposure to the risk of fluctuations in the commodity price.

Equity price risk

The Group is exposed to equity price risk through the investment in Rusoro shares as well as warrants to acquire Rusoro share (2010: investment in Rusoro shares, warrants to acquire Rusoro share as well as Embedded Derivative within the Exchangeable Loan issued to Rusoro and the Call Option), which are measured at fair value and therefore exposed to changes in the Rusoro share price. An increase/decrease of 50% in the Rusoro share price, with all other variables held constant, would have resulted in the following impact on the income statement and income and expenses recognised directly in equity:

	2011		2010	
	Income statement US$'000	**Income and expense recognised directly in equity US$'000**	Income statement US$'000	Income and expense recognised directly in equity US$'000
50% increase in the share price	**–**	**272**	6,707	579
50% decrease in the share price	**–**	**(272)**	(2,035)	(96)

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group constantly monitors the level of funding required to meet its short-, medium- and long-term obligations. The Group also monitors compliance with restrictive covenants set out in various loan agreements (note 23) to ensure there is no breach of covenants resulting in associated loans become payable immediately.

Effective management of liquidity risk has the objective of ensuring the availability of adequate funding to meet short-term requirements and due obligations as well as the objective of ensuring a sufficient level of flexibility in order to fund the development plans of the Group's businesses.

The table below details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The amounts disclosed are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the balance sheet. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	0 - 3 months US$'000	**3 months - 1 year US$'000**	**1 - 2 years US$'000**	**2 - 3 years US$'000**	**3 - 5 years US$'000**
2011					
Borrowings					
- Convertible bonds	**–**	**–**	**–**	**–**	**380,000**
- Loans	**57,596**	**158,926**	**94,904**	**261,471**	**100,000**
Expected future interest payments [(a)]	**17,732**	**33,718**	**41,839**	**32,230**	**22,016**
Trade and other payables	**84,778**	**440**	**–**	**–**	**–**
	160,106	**193,084**	**136,743**	**293,701**	**502,016**
2010					
Borrowings					
- Convertible bonds	–	–	–	–	380,000
- Loans	3,615	89,206	32,876	30,609	10,063
Expected future interest payments [(a)]	9,502	15,742	21,085	19,799	23,585
Trade and other payables	113,589	22,080	–	–	–
	126,706	127,028	53,961	50,408	413,648

(a) Expected future interest payments have been estimated using interest rates applicable at 31 December. Loans outstanding at 31 December 2011 in the amount of US$337million (2010: US$30 million) are subject to variable interest rates and, therefore, subject to change in line with the market rates.

33. Operating lease arrangements

The Group as a Lessee

	2011 US$'000	2010 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	**4,640**	5,697

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under a non-cancellable operating lease for office premises, which fall due as follows:

	2011 US$'000	2010 US$'000
Expiring:		
Within one year	**9,989**	1,341
In two to five years	**21,181**	4,290
	31,170	5,631

The Group as a Lessor

The Group earned property rental income during the year of US$2.6 million (2010: US$2.5 million) on buildings owned by its subsidiaries Irgiredmet and Giproruda.

34. Capital commitments

At 31 December 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US$494.7 million (2010: US$153.8 million), including US$52.3 million in relation to pressure oxidation hub at Pioneer and US$328.2 million in relation to development of K&S project.

35. Contingent liabilities

The Group is involved in legal proceedings with Gatnom Capital & Finance Limited and O.M. Investments & Finance Limited, who are the minority shareholders in Lapwing Limited, the Group's 99.58% owned subsidiary incorporated in Cyprus and holding a 100% interest in Garinsky Mining and Metallurgical Complex. The claim was filed in September 2008 in Cyprus and the respondents are Lapwing Limited and Aricom UK Limited. The claimants allege their holdings in Lapwing Limited were improperly diluted as the result of the issuance of additional shares following a shareholders' meeting held in September 2007. The claimants have asked the court to dissolve Lapwing or, alternatively, to order that their shares be purchased at a price allegedly previously agreed upon or to be determined by an expert appointed by the court. On 20 January 2010, the claimants withdrew their composite claim and re-filed individual claims in substantially similar form. The Group has currently submitted an application to have the claim dismissed on the grounds that the minorities have an alternative remedy potentially available to them, and hence their claim for the winding up of Lapwing seeks a disproportionate remedy. The maximum potential liability arising from the claim cannot currently be accurately assessed although the Directors believe that the claim is of a limited merit.

36. Subsequent events

On 7 February 2012, the Group disposed its interest in the wholly-owned subsidiary CJSC SeverChrome for the total cash consideration of US$7.8 million.

On 22 March 2012, the Group entered into a US$200 million loan facility agreement with Sberbank. The loan bears annual interest of 7.75% and is repayable between June 2016 and March 2018.

On 27 March 2012, the Board of Directors resolved to recommend a final dividend of £0.07 per share which is expected to result in the aggregate payment of £13.2 million. Subject to shareholder approval at the Annual General Meeting on 31 May 2012, the final dividend is proposed to be paid on 26 July 2012 to the shareholders on the register at the close of business on 29 June 2012.

37. Reconciliation of non-GAAP measures

	2011			2010		
	Before exceptional items US$'000	**Exceptional items US$'000**	**Total US$'000**	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
Profit for the period	**238,057**	**2,432**	**240,489**	48,702	(25,731)	22,971
Add/(less):						
Interest expense	**39,641**	**–**	**39,641**	32,172	–	32,172
Investment income	**(3,119)**	**–**	**(3,119)**	(6,525)	–	(6,525)
Other finance losses/(gains)	**2,381**	**–**	**2,381**	(2,285)	10,314	8,029
Foreign exchange losses	**9,833**	**–**	**9,833**	3,165	–	3,165
Gain on re-measuring of equity interest in Omchak on acquisition	**–**	**–**	**–**	–	(28,882)	(28,882)
Net gain on acquisition of Jiatai Titanium	**–**	**(1,439)**	**(1,439)**	–	–	–
Taxation	**120,835**	**–**	**120,835**	46,228	–	46,228
Depreciation, amortisation and impairment	**174,280**	**14,241**	**188,521**	83,349	34,944	118,293
Underlying EBITDA	**581,908**	**15,234**	**597,142**	204,806	(9,355)	195,451

38. Group companies

The Group has the following principal subsidiaries and other significant investments, which were consolidated in this financial information.

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC **31 December 2011**	Proportion of shares held by Petropavlovsk PLC 31 December 2010	Proportion of shares held by the Group **31 December 2011**	Proportion of shares held by the Group 31 December 2010
Subsidiary						
CJSC Management Company Petropavlovsk	Russia	Management company	**100%**	100%	**100%**	100%
Petropavlovsk 2010	Jersey	Finance company	**100%**	100%	**100%**	100%
OJSC Pokrovskiy Rudnik	Russia	Gold exploration and production	**43.5%**	43.5%	**98.61%**	98.61%
CJSC Amur Doré	Russia	Gold exploration and production	**–**	–	**100%**	100%
OJSC ZDP Koboldo	Russia	Gold exploration and production	**–**	–	**95.7%**	95.7%
CJSC Malomirskiy Rudnik	Russia	Gold exploration and production	**–**	–	**99.86%**	99.67%
LLC Albynskiy Rudnik	Russia	Gold exploration and production	**–**	–	**100%**	100%
LLC Olga	Russia	Gold exploration and production	**–**	–	**100%**	100%
LLC Osipkan	Russia	Gold exploration and production		–	**100%**	100%
LLC Tokurskiy Rudnik	Russia	Gold exploration and production	**–**	–	**100%**	100%
LLC Rudoperspektiva	Russia	Gold exploration and production	**–**	–	**100%**	100%
CJSC Region	Russia	Gold exploration and production	**–**	–	**100%**	98.6%
CJSC Verkhnetisskaya Ore Mining Company	Russia	Gold exploration and production	**–**	–	**70%**	70%
CJSC YamalZoloto	Russia	Gold exploration and production	**–**	–	**98.6%**	98.6%
OJSC Yamalskaya Gornaya Kompania	Russia	Gold exploration and production	**–**	–	**74.87%**	74.87%
LLC Iljinskoye	Russia	Gold exploration and production	**–**	–	**100%**	100%
LLC Potok	Russia	Gold exploration and production	**–**	–	**100%**	100%
CJSC ZRK Omchak [(a)]	Russia	Gold exploration and production	**90%**	90%	**90%**	90%
LLC Amurmetal	Russia	Gold exploration and production	**–**	–	**100%**	100%
OJSC Temi	Russia	Gold exploration and production	**–**	–	**75%**	75%
LLC Amurskie Rossypi	Russia	Gold exploration and production	**–**	–	**100%**	–
CJSC Berelekh [(a), (b)]	Russia	Gold exploration and production	**–**	–	**76.62%**	68.95%
LLC ZeyaZoloto [(a)]	Russia	Gold exploration and production	**–**	–	**100%**	90%
LLC Uduma [(a)]	Russia	Gold exploration and production	**–**	–	**100%**	90%
Major Miners Inc.	Guyana	Gold exploration and production	**–**	–	**100%**	100%
Universal Mining Inc.	Guyana	Gold exploration and production	**–**	–	**100%**	–
Cuyuni River Ventures Inc.	Guyana	Gold exploration and production	**–**	–	**100%**	–
CJSC SeverChrome	Russia	Chrome exploration and production	**–**	–	**100%**	92.26%
LLC Kapstroi	Russia	Construction services	**–**	–	**100%**	100%
LLC NPGF Regis	Russia	Exploration services	**–**	–	**100%**	100%
CJSC ZRK Dalgeologiya	Russia	Exploration services	**–**	–	**98.6%**	98.6%
CJSC PHM Engineering	Russia	Project and engineering services	**–**	–	**94%**	94%
OJSC Irgiredmet	Russia	Research services	**–**	–	**99.69%**	99.69%
LLC NIC Gidrometallurgiya	Russia	Research services	**–**	–	**100%**	100%
LLC BMRP	Russia	Repair and maintenance	**–**	–	**100%**	100%
LLC AVT-Amur	Russia	Production of explosive materials	**–**	–	**49%**	49%
LLC Transit	Russia	Transportation Services	**–**	–	**99.86%**	–
Pokrovskiy Mining College	Russia	Educational institute	**–**	–	**98.61%**	98.61%
Joint venture						
LLC GDK Odolgo	Russia	Gold exploration and production	**–**	–	**–**	49%

(a) Including subsidiary of CJSC ZRK Omchak, being LLC Kaurchak (2010: OJSC Berelekh, LLC Kaurchak, LLC Uduma, LLC Zeyazoloto, LLC Maldyak, LLC Monolit, and LLC Elita).

(b) Including subsidiaries of OJSC Berelekh, being LLC Maldyak, LLC Monolit, and LLC Elita.

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC **31 December 2011**	Proportion of shares held by Petropavlovsk PLC 31 December 2010	Proportion of shares held by the Group **31 December 2011**	Proportion of shares held by the Group 31 December 2010
IRC Limited and its principal subsidiary, joint venture and associate undertakings [c]						
IRC Limited	HK	Management and holding company	**–**	–	**65.61%**	65.61%
Principal subsidiaries of IRC Limited						
LLC Petropavlovsk Iron Ore	Russia	Management company	**–**	–	**65.61%**	65.61%
LLC Olekminsky Rudnik	Russia	Iron ore exploration and production	**–**	–	**65.61%**	65.61%
LLC Kimkano-Sutarskiy Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	**–**	–	**65.61%**	65.61%
LLC Garinsky Mining & Metallurgical Complex	Russia	Iron ore exploration and production	**–**	–	**65.33%**	65.33%
LLC Kostenginskiy Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	**–**	–	**65.61%**	65.61%
LLC Orlovo-Sokhatinsky Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	**–**	–	**65.61%**	65.61%
LLC Karier Ushumunskiy	Russia	Iron ore exploration and production	**–**	–	**65.61%**	65.61%
OJSC Giproruda	Russia	Engineering services	**–**	–	**46.11%**	46.11%
LLC Rubicon	Russia	Infrastructure project	**–**	–	**65.61%**	65.61%
CJSC SGMTP	Russia	Infrastructure project	**–**	–	**65.61%**	65.61%
LLC AmurSnab	Russia	Procurement services	**–**	–	**65.61%**	100%
Heilongjiang Jiatai Titanium Co., Limited	China	Titanium sponge project	**–**	–	**65.61%**	42.65%
Joint ventures of IRC Limited						
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	Vanadium project	**–**	–	**30.18%**	30.18%
Associate of IRC Limited						
LLC Uralmining	Russia	Iron ore exploration and production	**–**	–	**32.15%**	32.15%

(c) After taking account of the 3.36% shares retained within the Employee Benefit Trust operated in conjunction with the long-term incentive schemes of IRC Limited, the Group's effective interest in the equity of IRC Limited is 67.96%.

Company Balance Sheet

At 31 December 2011

	note	2011 US$'000	2010 US$'000
Fixed assets			
Tangible assets		**100**	114
Investments	3	**1,573,035**	1,715,851
		1,573,135	1,715,965
Derivative financial assets		**–**	2,381
Current Assets			
Debtors: due within one year	4	**492,262**	238,929
Debtors: due after one year	4	**34,616**	212,517
Cash at bank and in hand		**52,247**	1,489
		579,125	452,935
Creditors: amounts falling due within one year	5	**(774,789)**	(826,001)
Net current liabilities		**(195,664)**	(373,066)
Total assets less current liabilities		**1,377,471**	1,345,280
Creditors: amounts falling due after more than one year	5	**(472,525)**	(124,565)
Provisions for liabilities		**–**	(321)
Net assets		**904,946**	1,220,394
Capital and reserves	7		
Share capital		**2,891**	2,891
Share premium		**377,140**	377,140
Merger reserve		**331,704**	570,071
Own shares		**(14,835)**	(15,163)
Convertible bond reserve		**59,032**	59,032
Other reserves		**13,859**	11,667
Profit and loss account		**135,155**	214,756
Shareholders' funds		**904,946**	1,220,394

The accompanying notes are an integral part of this balance sheet.

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 176 to 181 were approved by the Directors on 27 March 2012 and signed on their behalf by

Peter Hambro
Director

Brian Egan
Director

Notes to the Company Financial Statements

For the year ended 31 December 2011

1. Basis of preparation

The Petropavlovsk PLC ("the Company") balance sheet and related notes have been prepared on a historical cost basis, except for the revaluation of certain financial instruments at fair value in accordance with United Kingdom generally accepted accounting principles ('UK GAAP') and in accordance with UK Company law.

A summary of the principal accounting policies is set out below.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The loss after tax for the year of the Company was US$42.7 million (2010: profit after tax of US$146.8 million).

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 "Cash Flow Statements" and presenting financial instruments disclosures under the terms of FRS 29 "Financial Instruments: Disclosures".

The Company is also exempt from disclosing related party transactions under the terms of FRS 8 "Related Party Disclosures" which states that disclosure of related party transactions is not required in parent company financial statements when those statements are presented together with its Consolidated Financial Statements.

2. Significant accounting policies

2.1. Foreign currencies

The functional and presentation currency of the Company is the US Dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities that are denominated in other currencies are retranslated at the rates prevailing on the balance sheet date. Exchange rates used are consistent with the rates used by the Group as disclosed in note 2.10 to the Consolidated Financial Statements. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

2.2. Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life as follows:

	Average life Number of years
Office equipment	4-7
Computer equipment	3

2.3. Investments

Investments in subsidiary undertakings and joint ventures are initially measured at cost, including transaction costs, and subsequently carried at cost less provisions for impairment. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognised if the carrying amount of the investment exceeds the higher of net realisable value and the discounted future earnings from the investment.

2. Significant accounting policies continued

2.3. Investments continued
Other investments are those classified as available-for sale. Available-for-sale investments are initially measured at cost and subsequently carried at fair value. Changes to the fair value of available-for-sale investments are recognised in equity.

2.4. Taxation including deferred taxation
Full provision is made for deferred taxation on all timing differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

2.5. Financial assets and liabilities
Financial assets and liabilities are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective evidence that the financial asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

2.6. Derivative financial instruments
Derivative financial instruments are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument.

Derivative financial instruments embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

2.7. Share-based payments
Company operates a number of equity-settled share award schemes, the details of which are provided in note 30 to the Consolidated Financial Statements.

The share-based compensation is accounted for as equity-settled in the Company's financial statements and is measured at fair value of the awards at the date of grant. Fair value is determined using Black Scholes model, Monte Carlo model or a binomial model as deemed most appropriate.

The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions where appropriate.

In accordance with UITF 44 and FRS 20 "Share-based Payment", where a parent company grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled in the Consolidated Financial Statements of the parent, the subsidiary is required to record an expense for such compensation with a corresponding increase recognised in equity as a contribution from the parent.

2.8. Employee benefit trust
The provision of shares to share award schemes is facilitated by an employee benefit trust.

In accordance with UITF Abstract 38 'Accounting for ESOP trusts', the Company has been determined to be a sponsoring company of the employee benefit trust and therefore in preparing its accounts any own shares held by the employee benefit trust are recorded as own shares, and the carrying value is shown as a deduction in arriving at shareholders' funds until such time as those shares vest unconditionally in employees.

2.9. Revenue
Interest is accounted for on the accruals basis. Dividend income is recognised when the right to receive payment is established.

2.10. Dividends
Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

2.11. Operating leases
Rentals paid under operating leases are charged to the profit and loss account as incurred.

3. Investments

	Investments in Group companies US$'000	Other investments other than loans [a] US$'000	Total US$'000
Cost			
At 1 January 2011	**1,713,917**	**2,484**	**1,716,401**
Additions	**115,177**	**–**	**115,177**
Fair value change	**–**	**(1,941)**	**(1,941)**
At 31 December 2011	**1,829,094**	**543**	**1,829,637**
Provision for impairment			
At 1 January 2011	**(550)**	**–**	**(550)**
Charge for the year [b]	**(256,052)**	**–**	**(256,052)**
At 31 December 2011	**(256,602)**	**–**	**(256,602)**
Net book value			
At 1 January 2011	**1,713,367**	**2,484**	**1,715,851**
At 31 December 2011	**1,572,492**	**543**	**1,573,035**

(a) Note 17 to the Consolidated Financial Statements.

(b) Including US$238.4 million adjustment to reflect the value of the underlying consolidated net assets of IRC Limited (note 7).

4. Debtors

	2011 US$'000	2010 US$'000
Owed by Group companies	**525,969**	437,758
Exchangeable loan to Rusoro [a]	**–**	8,833
Deferred tax asset [note 6]	**–**	4,324
VAT recoverable	**473**	128
Other debtors	**436**	403
	526,878	451,446
Due within one year	**492,262**	238,929
Due after more than one year	**34,616**	212,517
	526,878	451,446

(a) Note 20 to the Consolidated Financial Statements.

5. Creditors

	2011 US$'000	2010 US$'000
Due to Group companies	**934,738**	931,924
Trade creditors	**3,704**	267
Accruals and other creditors	**308,872**	18,375
	1,247,314	950,566
Due within one year	**774,789**	826,001
Due after more than one year	**472,525**	124,565
	1,247,314	950,566

6. Taxation

As at 31 December 2011, the Company has tax losses available to carry forward in the amount of US$80.9 million (2010: US$29.5 million).

7. Statement of reserves and reconciliation of movement in shareholders' funds

	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Convertible bond reserve [a] US$'000	Own shares [c] US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2010	2,805	275,742	570,071	–	–	10,242	100,455	959,315
Profit for the year	–	–	–	–	–	–	146,781	146,781
Dividends	–	–	–	–	–	–	(27,774)	(27,774)
Share-based payments	–	–	–	–	–	1,546	–	1,546
Employee's option exercised	3	246	–	–	–	(21)	21	249
Capital contribution to Petropavlovsk 2010 EBT	–	–	–	–	(15,163)	–	(4,727)	(19,890)
Issue of convertible bonds	–	–	–	59,032	–	–	–	59,032
Exercise of warrants	83	101,152	–	–	–	–	–	101,235
Revaluation of available-for-sale investments	–	–	–	–	–	(100)	–	(100)
Balance at 1 January 2011	**2,891**	**377,140**	**570,071**	**59,032**	**(15,163)**	**11,667**	**214,756**	**1,220,394**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(42,745)**	**(42,745)**
Dividends [b]	**–**	**–**	**–**	**–**	**–**	**–**	**(36,856)**	**(36,856)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**4,166**	**–**	**4,166**
Vesting of awards within Petropavlovsk PLC LTIP	**–**	**–**	**–**	**–**	**328**	**(34)**	**–**	**294**
Revaluation of available-for-sale investments	**–**	**–**	**–**	**–**	**–**	**(1,940)**	**–**	**(1,940)**
Transfer to retained earnings [d]	**–**	**–**	**(238,367)**	**–**	**–**	**–**	**–**	**(238,367)**
Balance at 31 December 2011	**2,891**	**377,140**	**331,704**	**59,032**	**(14,835)**	**13,859**	**135,155**	**904,946**

(a) On 15 February 2010, Petropavlovsk 2010 Limited issued US$380 million bonds which are convertible into redeemable preference shares in Petropavlovsk 2010 Limited and are guaranteed by, and will be exchangeable immediately upon issuance, for ordinary shares in Petropavlovsk PLC. The Company has recognised the exchange option in equity, and its value has been determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is not subsequently re-measured. The provision of the exchange option to Petropavlovsk 2010 Limited has been recognised as a capital contribution to that entity. Details on convertible bonds are set out in note 23 to the Consolidated Financial Statements.

(b) Note 12 to the Consolidated Financial Statements.

(c) The reserve for own shares arises in connection with the Employees Benefit Trust (EBT), a discretionary trust established and operated in conjunction with the Group's long-term incentive plans (LTIPs). Details of the Group's LTIPs are set out in note 30 to Consolidated Financial Statements. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the Company's shares purchased by the trust which have not vested unconditionally in employees at the balance sheet date.

(d) Being adjustment to the book value of investment to reflect the value of the underlying consolidated net assets of IRC Limited (note 3).

8. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain subsidiaries. Please also see note 23 to the consolidated financial statements.

9. Commitments under operating leases

	2011 US$'000	2010 US$'000
Expiring:		
Within one year	**296**	271
Within two to five years	**261**	539
	557	810

10. Directors' remuneration

There were six Executive Directors who held office at the end of the year (2010: three Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 108 to 120 of this Annual Report.

11. Subsequent Events

On 27 March 2012, Eponymousco Limited, the wholly-owned subsidiary of the Company, declared a dividend of US$81,700 thousand.

Please also see note 36 to the consolidated financial statements.

Appendix, Glossary and Definitions

Cautionary note regarding forward-looking statements
Certain statements contained in this Annual Report are forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "intends", "may", "will" or "should" or in each case their negative, or other variations or comparable terminology. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among other things, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations (including fluctuations in the US Dollar or Rouble), the Group's ability to recover its reserves or develop new reserves and to implement its expansion plans and achieve cost reductions and efficiency measures, changes in business strategy or development, political and economic uncertainty and other risks described in the section entitled "Principal Risks Report". There can be no assurance that the results and events contemplated by the forward-looking statements contained in this Annual Report will, in fact, occur.

Any forward-looking statements in this Annual Report reflect the Group's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations and growth strategy. Shareholders should specifically consider the factors identified in this Annual Report which could cause results to differ before making an investment decision. These forward-looking statements speak only as at the date of this Annual Report, the Financial Statements and Sustainability Report 2010. The Group will not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this Annual Report, Financial Statements and Sustainability Report, except as required by law or by any appropriate regulatory authority. Nothing in this publication should be considered as a profit forecast.

Past performance cannot be relied on as a guide to future performance.

The basis of reporting reserves and resources
Mineral Resource and Ore Reserve estimates included within this Annual Report and the accompanying Sustainability Report 2011 are reported in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves as prepared by the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geosciences and Minerals Council of Australia ("JORC Code (2004)").

The basis for reporting reserves and resources for the Group's alluvial deposits is in accordance with the Russian Classification System, approved by the State Committee on Reserves ("GKZ") in 1965 (amended in 1981 and 2008).

The Russian Classification System is based principally on the degree of geological knowledge and the technical ability to extract a mineral reserve. Although economic considerations form a part of the justification for A, B, C1, and C2 category reserves, the system does not take into account the economic viability of extraction in the same manner as the JORC Code (2004), or other internationally recognised mineral reserves classification codes. The Russian Classification System also classifies reserves as "on-balance" if they economically viable at the time of the estimate and "off-balance" if the economic viability is yet to be demonstrated. Licence holders must register A, B, C1, and C2 category reserves with the GKZ to be able to extract them (depending upon the structural complexity class of the deposit. Gold deposits are usually in complexity class 2, 3 or 4 which require categories C1 and/or C2 only; categories A and B are rarely recorded for such deposits).

References to "the Group", "the Company", "Petropavlovsk" and "IRC"
Petropavlovsk PLC holds a 65.6% stake in IRC Limited, which is listed on the Stock Exchange of Hong Kong Limited and has a separate management and Board of Directors.

Throughout this document, references to "the Company" refer to Petropavlovsk PLC. References to "the Group" refer to the Company and its subsidiaries ("Petropavlovsk PLC Group of Companies") which may or may not include IRC Limited and its subsidiaries ("the IRC Limited Group of Companies").

References to "Petropavlovsk" should be read as the Petropavlovsk PLC Group of Companies, excluding the IRC Limited Group of Companies. References to IRC should be read as IRC Limited or the IRC Limited Group of Companies.

adjusted earnings per share	adjusted earnings per share (basic) is profit for the period attributable to equity holders of Petropavlovsk PLC before impairment divided by the weighted average number of Ordinary Shares during the period
AIM	The Alternative Investment Market of the London Stock Exchange plc
alluvial	material which is transported by a river and deposited at points along the flood plain
assay	qualitative analysis of ore to determine its components
Au	chemical symbol for the element gold
autoclave oxidation	a high temperature and pressure process in which gold bearing sulphides are oxidised to render gold amenable to cyanide leaching
BAM Railway	the Baikal-Amur Railway
cut-off/grade	the lowest grade of mineralised material considered economic, used in the reporting of Ore Reserves and Mineral Resources
Board	the Board of Directors of the Company
Chita region	the Zabaikalskiy Krai region of Russia
Directors	the Directors of the Company
DSO	direct shipping ore
EAO	Evreyskaya Avtonomnaya Oblast, a region within Russia, also known as the Jewish autonomous region
Fe	chemical symbol for iron
feasibility study	an extensive technical and financial study to assess the commercial viability of a project
flotation	mineral processing technique used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
fold	a structure of rocks or strata that have been bent into a dome (anticline), basin (syncline), terrace (monocline) or a roll
the Foundation	the Petropavlovsk Foundation for Social Investment
geochemical prospecting	techniques which measure the content of specified metals in soils and rocks; sampling defines anomalies for further testing
geophysical prospecting	techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies
g/t	gram per metric tonne
grade	relative quantity or the percentage of ore mineral or metal content in an ore body

heap-leach	process used for the recovery of metal ore from typically weathered low-grade ore. Crushed material is laid on a slightly sloping, impervious pad and uniformly leached by the percolation of the leach liquor trickling through the beds by gravity to ponds. The metals are recovered by conventional methods from the solution
ICBC	Industrial and Commercial Bank of China
ilmenite	a black or dark brown mineral which is a major source of titanium and used as a feedstock for the production of titanium dioxide
***Indicated* Resource**	as defined in the JORC Code (2004), is that part of a mineral resource which has been sampled by drill holes, underground openings or other sampling procedures at locations that are too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity and where geoscientific data is known with a reasonable degree of reliability. An *Indicated* Mineral Resource will be based on more data and therefore will be more reliable than an *Inferred* Resource estimate
***Inferred* Resource**	as defined in the JORC Code (2004), is that part of a mineral resource for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
Irgiredmet	OAO Irgiredmet, the Irkutsk Research Institute of Precious Metals and Diamonds
JORC	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia
K&S	the Kimkan and Sutara deposits, which are being developed as one project by IRC
Kapstroi	OOO Kapstroi, an indirect subsidiary of the Company. Specialising in mine construction, Kapstroi has so far carried out the majority of the construction work for the Group
Ktpa	thousand tonnes per annum
LSE	The London Stock Exchange plc
mill	equipment used to grind crushed rocks to the desired size for mineral extraction
mineralisation	process of formation and concentration of elements and their chemical compounds within a mass or body of rock
Mineral Resource	concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for eventual economic extraction. The location, quantity, grade geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are subdivided into *Inferred*, *Indicated* and *Measured* categories
Mtpa	million tonnes per annum
open-pit	large excavation developed to extract a mineral deposit located near the surface
ore	mineral deposit that can be extracted and marketed profitably
ore body	mining term to define a solid mass of mineralised rock that can be mined profitably under current or immediately foreseeable economic conditions
Ore Reserve	the economically mineable part of a *Measured* or *Indicated* Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore Reserves are sub-divided in order of increasing confidence into *Probable* and *Proven*
ounce or oz	troy ounce (= 31.1035 grams)

Outotec	Outotec (Finland) Oy
overburden	material that lies above the ore deposit
POX	pressure oxidation is a high temperature and pressure process in which gold bearing sulphides are oxidised to render gold amenable to cyanide leaching
***Probable* Reserve**	*Measured* and/or *Indicated* Mineral Resources which are not yet proven, but where technical economic studies show that extraction is justifiable at the time of the determination and under specific economic conditions
production	total attributable gold production, as stated throughout this document, is comprised of 100% of production from the Group's subsidiaries and, where applicable, the relevant share of production from joint ventures and other investments. Figures for the comparative period are restated accordingly. No attributable ounces are included in the Group's production figures from its c.1.1% interest in Rusoro Mining Ltd. The Company's direct and indirect interest in Pokrovskiy Rudnik (the holder of the Group's Pokrovskiy and Pioneer interests) is 98.61%. Cumulative gold production, as stated throughout this document, consists of gold physically recovered and gold in circuit. Accordingly, gold produced in the year consists of gold recovered during the period and adjusted for the movement in gold still in circuit
***Proven* Reserve**	*Measured* Mineral Resources, where technical economic studies show that extraction is justifiable at the time of the determination and under specific economic conditions
recovery	the proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material processed
refractory ore	ore material that is difficult to treat for recovery of the valuable element
R&D	research and development
RIP	resin in pulp; a processing technique by which a resin medium is used to absorb the desired element out of solution or pulp
Russian Standard Classification System	the means by which Russian reserves are assigned to classes based on the degree of reliability of data and which indicate their comparative importance for the national economy
stockpile	an accumulation of ore or mineral formed to create a reserve for loading or when demand slackens or when the process plant is unequal to handling mine output
strike	direction in which a horizontal line can be drawn on a plane, which determines the direction in which to measure the true dip of an ore body
strike length	longest horizontal dimension of an ore body or zone of mineralisation
strip ratio	the unit amount of spoil or waste that must be removed to gain access to a similar unit of ore or mineral material
tailings	material that remains after all metals/minerals considered economic have been removed from the ore
trench sampling	sampling of a trench cut through the rock, generally in the form of a series of continuous channels (channel samples)
Underlying EBITDA	profit for the period before financial income, financial expenses, foreign exchange gains and losses, fair value, charges, taxation, depreciation, amortisation and impairment
WAI	Wardell Armstrong International Ltd, mining, mineral and alternative energy consultants
Yamal, Yamal region	Yamal-Nenets autonomous district of Russia

Notes

Notes

Shareholder Information

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Registrars
Enquiries relating to shareholdings in Petropavlovsk PLC should be made to the Group's UK Registrars, Capita Registrars:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

E shareholder.services@capitaregistrars.com

T 0871 664 0300

(Calls charged at 10p per minute plus network extras)

Lines are open 8.30am to 5.30pm, Monday to Friday.

From outside the UK
T +44 (0)20 8639 3399

Sustainability Report
Although sustainable development is integrated into the Group's overall company strategy, Petropavlovsk recognises that it is important to provide its shareholders and stakeholders with an overview of its health, safety, environmental and community relations performance which goes beyond the information provided in this Annual Report. Thus, Petropavlovsk produces a dedicated Sustainability Report, which is available to download from the Company's website, www.petropavlovsk.net. Hard copies may be obtained by contacting the Company's Head Office.

Further information

Additional information on the Group may be obtained from the Company's website, www.petropavlovsk.net or by contacting the Company's Head Office.

Additional information on IRC may be obtained from IRC's website, www.ircgroup.com.hk or by contacting IRC's Head Office.

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