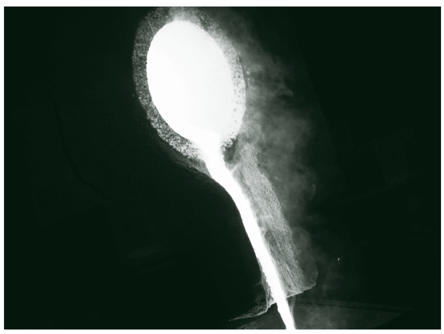
Delivering on our promises and sustaining future growth

Annual Report 2012

PETROPAVLOVSK



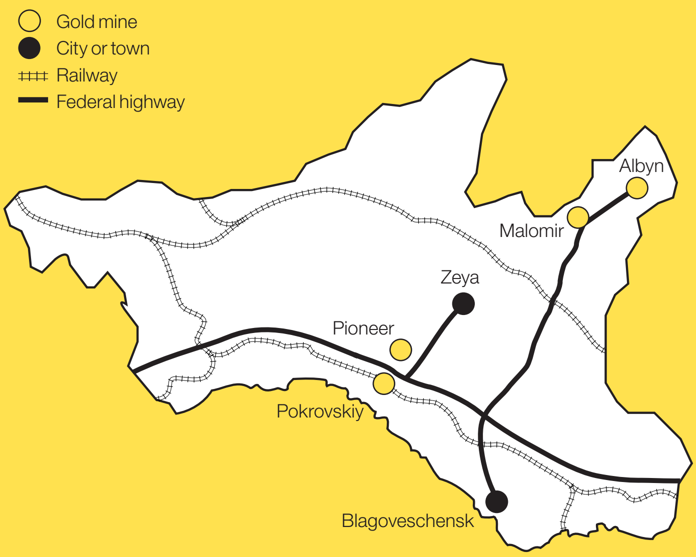
Left
Smelting gold into doré bars
at the Pokrovskiy mine.

Cover images
Left
Fire assaying at one of the Group's
six state-accredited laboratories.
Right
Mining at Pioneer, the Group's
flagship operation.

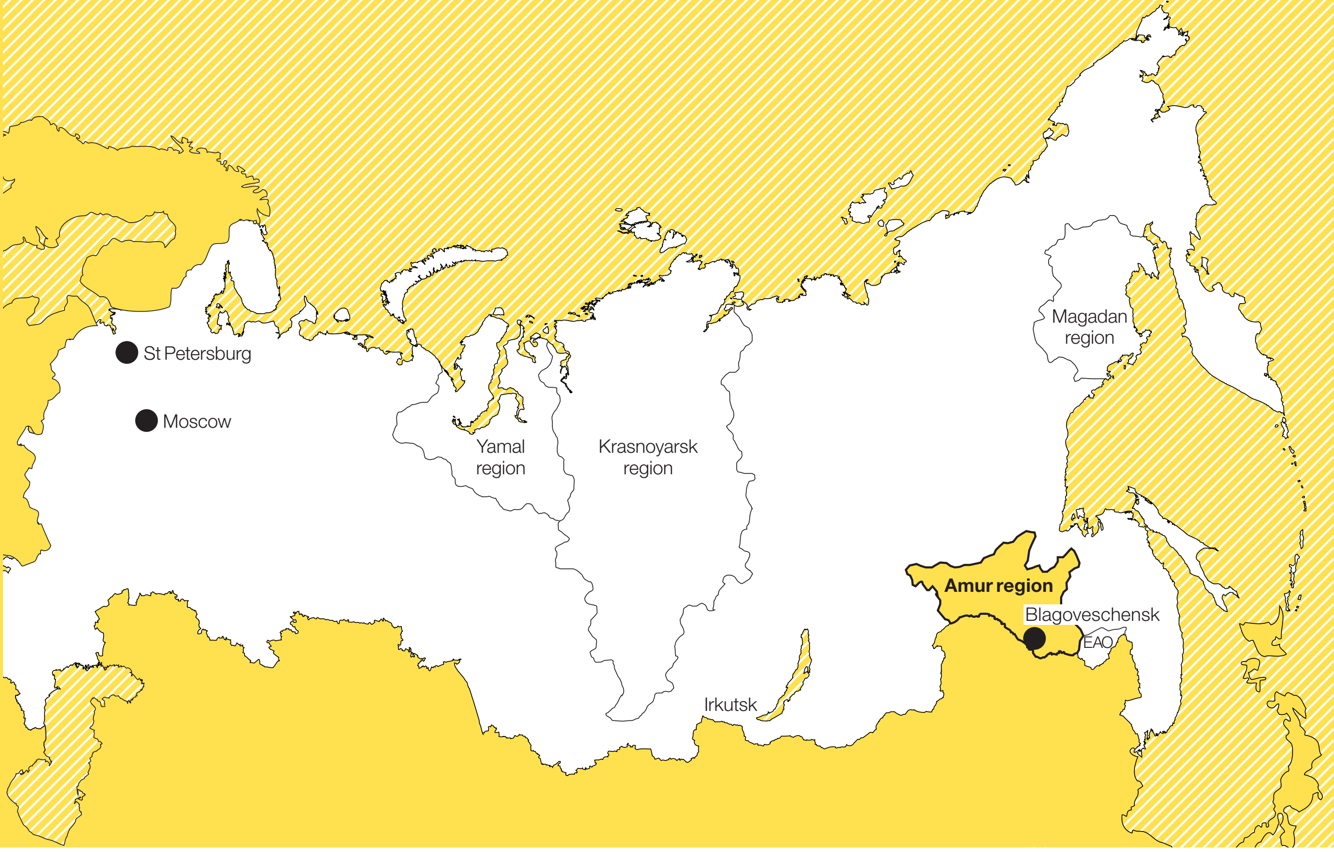
Where we operate

The Group has operated in Russia since 1994 and today is a leading Russian gold producer. The Group's core assets are located in the Amur region, which lies across one of the world's major belts of mineralisation. The region benefits from good infrastructure and access to hydroelectric power and boasts a strong mining tradition. Petropavlovsk is a leading regional employer and contributor to the development of the region's local economy.

Amur region



Russian Federation



Our core assets

Pokrovskiy
The Group's oldest gold mine which to date has produced more than 1.75Moz of gold. The mine is being converted into a unique "hub" for processing refractory ores which, once commissioned, will be the largest and most technologically advanced of its kind in Russia.

Go to page 26 for the 2012 Pokrovskiy operations report

Go to page 28 for more on the development of the POX Hub

Go to page 43 for a breakdown of Pokrovskiy Reserves and Resources

Pioneer
With a fourth RIP processing line commissioned ahead of schedule and ramped up in 2012, Pioneer remains the Group's flagship mine, accounting for nearly half of the Group's 2012 gold production. Pioneer and its surrounding licence areas remain highly prospective for discovery of further gold reserves.

Go to page 30 for the 2012 Pioneer operations report

Go to page 40 for more on Pioneer's exploration potential

Go to page 44 for a breakdown of Pioneer Reserves and Resources

Malomir
Malomir produced 103,300oz of gold in 2012. With construction of the flotation plant on schedule, Malomir remains on track to become the Group's first refractory operation in Q3 2013, when the new plant is commissioned, opening a new page in the Group's history.

Go to page 32 for the 2012 Malomir operations report

Go to page 40 for more on Malomir's exploration potential

Go to pages 44 to 45 for a breakdown of Malomir Reserves and Resources

Albyn
Milling capacity was doubled at the Group's newest gold mine in June 2012, ahead of schedule. During the year, Albyn ramped up to produce 89,300oz of gold. Mineralisation is non-refractory and the area offers substantial exploration potential.

Go to page 34 for the 2012 Albyn operations report

Go to page 41 for more on Albyn's exploration potential

Go to page 45 for a breakdown of Albyn Reserves and Resources

Who we are
Producing 710,400oz of gold in 2012, Petropavlovsk remains Russia's second largest gold producer. The Group has a strong track record of year-on-year growth in both its gold resource base and its production. The Company's shares are traded on the London Stock Exchange.

What we do
The Group's business model encompasses exploration, development, mining and processing in order to produce gold and ensure sustainable growth.

Go to page 5 for more on the Group's business model

How we operate
The Group is committed to operating in a manner which is efficient, responsible, transparent and sustainable.

Go to page 53 for the Group's values and commitments

What distinguishes us
The Group is distinguished by its quality asset base, a management with specialised knowledge and local expertise, a track record of good operational performance, exploration expertise and its world-class research into gold processing technologies, culminating in the commissioning of Russia's largest and most technologically advanced pressure oxidation plant for gold extraction.

Go to page 28 for more on the POX Hub

Contents

Chairman's Statement
Peter Hambro

Petropavlovsk produced 710,400oz of gold in 2012 and generated almost half a billion dollars in EBITDA for the year, a combination of production growth and cost control in the key areas of mining and processing and the strong gold price.

At the time of the First Half Results, I highlighted operating successes measured by the volume of material mined and processed, the number of ounces of gold sold, our operating costs and the resulting EBITDA, but went on to highlight the negative effect on our bottom line of higher interest charges and increased depreciation, that resulted from commissioning of new production facilities.

For the full year, we are again pleased by a US$112.7 million increase in revenue to US$1.4 billion resulting from a US$53/oz increase in the received gold price to US$1,670/oz and a 26,900oz increase in volume of gold sold to a record of 703,200oz.

Significant increases in input costs have been an industry-wide phenomenon in 2012 and for us, the effect was compounded by scheduled lower grades, increased stripping costs and temporarily reduced recoveries related to processing transitional ore types. We are pleased to report, however, that we managed to offset some of these cost increases by containing mining and processing costs, which, on average, were slightly better than in the previous year. Nonetheless, total cash costs for the Group on a Dollar per ounce basis increased from US$740/oz in the first half of 2012 to US$855/oz in the second half of 2012, an increase of 16% (excluding alluvial operations).

2012 was a year in which the mining industry generally experienced a number of extremely large non-cash fair-value impairments and we were not spared these problems. Net loss on disposals of a number of non-core assets of US$26.9 million, US$197.9 million fair value write-down of IRC's net assets and US$21.0 million of other impairments in IRC and US$109.5 million impairment of Yamal and other non-core assets took their toll and, when added to continuing interest expense and depreciation charges, the welcome US$487.7 million EBITDA number is transformed into a disappointing loss of US$243.9 million. It should be noted that non-core assets impairments are part of a policy of disposal and we will continue to work towards realising value from these written-down assets. The carrying value of IRC will be at the prevailing market price until it becomes an associate and any change reflected in the profit and loss account.

Operations
In 2012, Petropavlovsk achieved its tenth consecutive annual increase in gold production and exceeded its production target in spite of some one-off operational challenges.

Over the past 16 months, the Group also brought into production Albyn, its fourth new mine, where commissioning of a second milling line began just seven months after commissioning the first processing line, thereby effectively doubling Albyn's processing capacity within the first year of operation. In addition, we also commissioned a fourth milling line at Pioneer and these successes helped mitigate the negative effect of processing transitional ore at the Malomir mine.

At Malomir, the first stage of development focused on the processing of non-refractory ores through a conventional resin-in-pulp ("RIP") plant and this stage is now drawing to an end. The flotation concentration plant will be available for processing refractory ores, from Q3 2013.

In the meantime, treatment of the transitional material, so called because it is neither fully-oxidised nor fully-refractory, is the reason for the temporary reduction in recovery rates at Malomir and this did affect Group production and cash costs.

IRC
Petropavlovsk continues to be a major investor in IRC as it goes through its successful development programme, enabling the Company to share the upside of IRC's growth potential. During the year, IRC exceeded production targets for the second consecutive year and continued to develop its K&S mine towards production in the first half of 2014.

I am delighted to report on the significant potential investment in IRC by General Nice and Minmetals Cheerglory, a transaction which sees IRC realise its ambition of becoming a Sino-Russian champion, the first stage of which is expected to complete shortly after this report is published.

This transaction provides IRC with additional financing for its flagship K&S project and Garinskoye. It also de-risks cash flow from these projects by providing take or pay off-take and marketing arrangements. Following completion of this transaction, I believe IRC will be on a strong footing to fund and deliver its growth plans.

"For the full year, we are again pleased by a US$112.7 million increase in revenue to US$1.4 billion."

Finance
Hedging commodity prices is always a difficult decision for mining companies and one that is often seen by the financial community as controversial, so I thought it might be appropriate to share with you some of the background to our recent decision in this regard.

To obtain its shareholders' approval for the IRC transaction, which it did on a 99.98% vote in favour by about 60% of holders of its shares eligible to vote, the Company was required to issue a Class 1 Circular. This, in turn, meant that the Directors had to issue a working capital opinion and, for this purpose, we adopted conservative assumptions on costs and the gold price. It was in connection with this exercise, and in order to protect cash flows from the volatility in the gold market, that the Board decided to hedge up to 50% of production, and accordingly the Company sold c.400,000oz of gold for fortnightly forward delivery to be cash settled at US$1,663/oz.

This hedging, IRC's proposed new capital and the proposed pro-rata indemnity from General Nice in respect of the Company's contingent liabilities for IRC bank debt to ICBC, all support the Group's strong financial position.

However, like many of you, I read the analysts' comments about the Group and the reports in the press of market sentiment and there are two recurrent topics on which I would comment. First, I am happy to confirm, based on the most recent forecasts from our financial and operations team, that the Group presently has reasonable headroom in respect of its banking covenants in the light of the expected deconsolidation of IRC. Second, these forecasts also indicate that together with its undrawn bank facilities and, having made net debt repayments of c.US$75 million, the Group is currently not in need of additional equity capital with which to fulfil its current plans.

Reserves and Resources
This is the sixth consecutive year in which Petropavlovsk has increased its total JORC Mineral Resource. This is particularly good news, given that it was also a year of record annual production of more than 710,000oz of gold.

It is also gratifying to note, that the total JORC Resource identified in the year, amounted to almost 2Moz, which more than offset ounces removed from the inventory on the sale of non-core assets, and as a result, of production.

Our ability to not only replenish, but also add to the Group's Resource base is one of the great strengths of this Group and has been key in our success to date.

It was encouraging to see in 2012 that we produced c.20% more gold at Pioneer than was predicted from the JORC Resource models, thus confirming what we have believed for some time, that even JORC Reserve estimate methodologies do not always account fully for the nugget-effect of gold mineralisation at Pioneer.

It is also important to note that in calculating our Reserves we have continued to use the same price and cost assumptions that were used in the Wardell Armstrong reports of 2010/11 – a gold price of US$1,200/oz for Visokoe and Albyn and gold price of US$1,000/oz for all other projects.

Exploration
This year, we have focused our exploration programme on areas at, or close to, our operating mines and, in particular, on finding new, non-refractory Resources. As a result, the majority of the c.2Moz of new Resources we have found are within non-refractory ore and located at, or close to, our processing plants, thus requiring minimal capital expenditure for development.

The progress we have made at Elginskoye, a licence area some 15km from the RIP plant at Albyn, is of particular interest. In just over two years, the area has been transformed from a prospective greenfield site to one with an estimated 1.3Moz of JORC Resources in non-refractory ore – a great testament to the strength of our geological team. Analysts should note that this licence area is not yet fully explored and a number of prospective targets have been identified that are not included in the stated Resource estimates. Accordingly, we expect Elginskoye to provide additional reserves for the Albyn RIP plant in due course.

We have also identified a number of prospective targets at the Pioneer and Malomir licence areas that are yet to be fully explored and, thus, not included in today's statement. If proven, these will further boost gold production from good grade, non-refractory ore in the short-term and dilute the contribution from refractory ore.

The acquisitions of Afanasevskaya, a licence north-west of Albyn, Ivanovskaya, a licence close to, and within, the same geological trend as Pioneer and two new licences at Malomir, all look very promising and one of these licences already has established Russian Category resources. Work is currently being conducted to upgrade these into JORC estimates.

Chairman's Statement
continued

Outlook
We expect 2013 to be a transformational year for the Group and I am confident in the team's ability to manage the goals we have set in an efficient and timely manner. Our announced production target of 760,000oz–780,000oz represents a base-case scenario, based on current Reserves and excludes any potential upside from the new discoveries.

During 2013, we are planning to finalise the construction of our pressure oxidation hub ("POX Hub"), with commissioning planned for the beginning of 2014. We believe the POX Hub will transform the Group into one of the leaders in the sector, using tried and tested modern technology to recover gold from refractory ore.

Much has been written about the complex nature of gold production using high pressure, high temperature oxidation of refractory ores. No responsible mining company embarking on this process would claim certainty of commissioning without some teething troubles. But I believe our decision to adopt a multi-autoclave process, which enables higher temperatures and pressures for a more complete oxidisation of the ore, and our early identification of the issues caused by the chlorinated process-water, will be seen to have removed at least some of the problems encountered elsewhere in the industry.

In addition, extensive advice from international specialists on vessel lining, our insistence on high-quality metals for piping and associated welding will, I believe, further assist in reducing commissioning problems. Indeed, I have great faith in our internal team and in our external consultants, who have successfully brought pressure oxidation facilities into production elsewhere in the world. And, if we get this right, the rewards are significant, since it will open the door to the 80% of Russia's gold resources which are believed to be contained in refractory ores.

Interest charges and depreciation are, I am afraid, here to stay and indeed depreciation will increase again once the investment in our pressure oxidation facilities bears fruit in 2014 and gold production climbs once again. In 2013, the Group is planning to process some of the lower grade stockpiles which we built up over the course of past years. Though these are more expensive to treat on a per ounce basis than higher grade ore, processing these stockpiles will release working capital and boost operating cash flow. We also expect a 10% reduction in 2013 in capital expenditure (excluding IRC and exploration) when compared to 2012.

In general, our costs are likely to remain under pressure and efforts are being made to minimise both direct and administrative expenses. As part of the latter, members of the management team have volunteered to cancel their bonus payments for 2013.

In keeping with the Board's insistence on minimising cash outflows during the period of maximum investment, the Board decided to maintain the final dividend but to do this by way of a £0.02 per share cash dividend and a £0.05 per share scrip dividend.

In summary, your company started a long journey when it was formed almost 19 years ago to mine and process gold in the Amur region and it has achieved many milestones along the way. Its immediate waypoint is the successful gold extraction from refractory ore via pressure oxidation. To achieve this, we have incurred substantial debt and the market is concerned about this. This concern is currently being played out in our poor share price. I believe that management will deliver on their objectives and the result will be a significant decrease in capital expenditure in 2014 and steady cash flows from gold mining operations. By then IRC's flagship iron ore operations at K&S will also be in production. All this should enable the substantial repayment of the debt by 2019.

Gold price
During the weekend of 16-17 March 2013, we saw the first attempt by a European Union country to expropriate funds from customers of its banking system as a means of restoring its viability. Though portrayed in the media as some sort of super-tax on wealthy savers, it is, as well, a most damaging attack on the "normal course of business" treasury functions of a large number of corporations. Cyprus is, after all, the country where double-tax treaties between Russia and the rest of the world meet.

Happily, the Group had minimal funds in these banks and the effect on us is *de minimis* but the draconian measures only serve to confirm my belief that the financial system, as we know it, is under great pressure. We know that this is not caused by bankers but rather it is caused by deficit spending by governments and the world population is becoming daily more aware of the hidden taxation caused by the inflation needed to balance the governments' books. For this reason, individuals and countries alike continue to divest themselves of monetary assets and turn to real assets instead. Amongst these, gold is the leader.

Thanks
I should like to thank all of the Group's employees for their hard work and devotion, our bankers and brokers, for their continuing support and the owners of our shares, for the faith with which they entrust us.

Peter Hambro
Chairman

Business Model

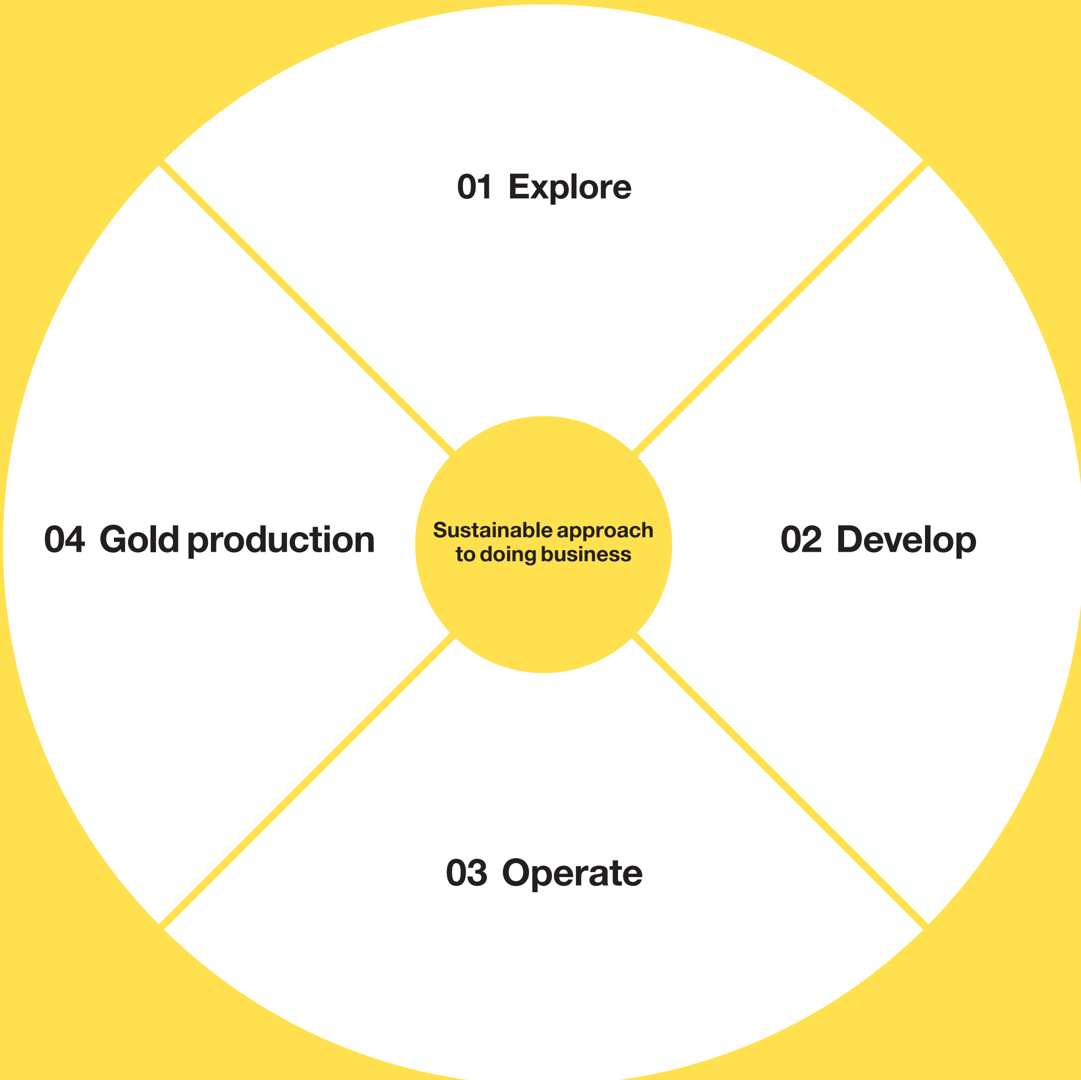
Our mission
Petropavlovsk aims to deliver superior shareholder returns and sustainable growth by becoming one of the leaders in the global gold mining industry, characterised by operational excellence as well as responsible, transparent and sustainable business practices.

Our strategy to achieve this
We seek to maximise the potential of our existing assets and deliver strong growth via: employing operational efficiency and expertise, leveraging development opportunities, embracing new and innovative gold processing technologies, continuing with an active exploration programme at, near, or adjacent to existing processing facilities and operating in a sustainable and responsible manner.

Our business model
To deliver this strategy, the Group has developed a business model which encompasses all stages of mine development in-house.

This business model has supported the Group's strong track record of delivering sustainable growth, enabling it to cement its position as Russia's second largest gold producer. The Group believes that this business model will support the Group as it continues to develop and grow.

Sustainable business practices are at the heart of the business.



Strategy

Explore

Expanding our resource base with a focus on maximising the potential of our operating mines

Further information

Reserves and Resources KPIs: page 13

See pages 40 to 41 for the 2012 Exploration Report and Licence Acquisitions

See pages 42 to 49 for the Group's Statement on Reserves and Resources

2012 Progress

- Addition of 1.95Moz of Mineral Resources (before depletion)
- All new Resources located at operating mines
- c.90% of new Resources are non-refractory thus potentially suitable for processing in existing RIP plants or via existing heap-leach facilities
- Several new zones of mineralisation at Pioneer and Albyn (Elginskoye) identified
- New licences acquired near Pioneer, Albyn and Malomir

Focus for 2013 and beyond

- Continue exploration at existing assets in order to establish new Resources
- Target to convert existing Resources into Reserves
- Explore new mineralised zones which are yet to be included in the Group's JORC statement
- Explore newly-acquired licences close to existing mines

Develop

Advancement of existing assets to unlock their maximum potential and embracing the latest trends in the gold extractive industry via the creation of the POX Hub

Further information

See pages 24 to 37 for the Operations and Development

2012 Progress

- Processing capacity at Pioneer RIP plant expanded to 6.0Mtpa–6.6Mtpa
- RIP plant capacity at Albyn doubled to 3.6Mtpa–4.0Mtpa
- Plant capacity at Malomir increased up to 180,000tpm due to expansion of the sorption circuit
- Continued construction and development of POX Hub facilities
- Continued construction and development of Malomir flotation plant
- Test work continuing at pilot test plant and Group R&D centres

Focus for 2013 and beyond

- POX Hub on track for commissioning in Q1 2014
- Flotation plant at Malomir on track for commissioning in Q3 2013
- Continue test work on operational parameters at the Group's pilot plant

Operate

Employing operational efficiency and expertise to deliver our production targets

Further information

Attributable gold production KPI: page 11

Total cash costs for hard-rock mines and total average cash cost KPIs: page 12

See pages 26 to 35 for operations reports

See pages 17 to 18 of the Chief Financial Officer's Statement for commentary on costs

2012 Progress

- Total gold production was 710,400oz, a 13% increase compared to 2011 and exceeding the target
- Total cash costs increased, however, unit costs per cubic metre of material moved and tonnes processed were essentially unchanged
- Challenges with Albyn ramp-up successfully overcome
- Economies of scale achieved through expanded plants, helped to offset the effect of transitional ore processing at Malomir

Focus for 2013 and beyond

- Gold production target for 2013 of 760,000oz to 780,000oz up 7% to 10% vs. 2012 actual achieved production
- 2013 unit cash costs for all hard-rock operations expected to remain approximately in line with 2012 levels in spite of inflationary pressures
- Steady ramp-up of POX facility from Q1 2014
- Cash costs for POX Hub expected to be at the same level as current Group cash costs

Sustainability

Operating in accordance with our values and principles

Further information

LTIFR KPI: page 13

See pages 50 to 63 for the Sustainability Report

2012 Progress

- Continued to work in line with our values and principles
- Continued to work towards achieving goals set out in the Sustainability Action Plan, including achieving zero fatalities and low LTIFR
- All hard-rock mines achieved ISO 14001 accreditation
- Continued investment into the Petropavlovsk Foundation
- Developed community relations management systems
- Developed a system for reporting carbon emissions

Focus for 2013 and beyond

- Working in line with the Group's values and commitments
- Working towards the goals set out in the Sustainability Action Plan
- Reporting of carbon emissions

Gold Market

Gold performance
Gold appreciated 8% in 2012, with the London PM Fix closing at US$1,658/oz on 31 December 2012. The average gold price for the year reached a record US$1,668/oz, up 6% compared with 2011 (US$1,571/oz) with a high of US$1,792/oz during the first week of October. This was the 11th consecutive annual increase in the gold price since 2001.

Gold demand
Global jewellery demand accounted for just over 40% of the total annual gold demand in 2012, declining by 3% to c.61.3Moz on an annual basis. China and India accounted for over one half of total demand (c.34.2Moz), although India's consumption declined by c.12% in 2012, whereas China was flat. Jewellery demand in western economies declined by c.11% to 1.6Moz, continuing its downward demand trend, constrained by affordability factors and prolonged recessionary impact.

Gold bar and coin consumption was down by close to one fifth, but nonetheless, accounted for 29% of total gold demand, at c.40.4Moz for the year. There is some suggestion that a contributing factor for softening demand in this category was that investors were inclined to take profits as gold continued to approach historically high levels, supported by a lack of urgency to buy once it became more evident that gold was trading within a range. However, it is interesting to note that China was one of the very few countries where demand was flat as opposed to contracting.

Some of the declining bar and coin demand was offset by robust ETF inflows, with the top 20 gold ETFs holding a record 88.8Moz of gold at the end of year, as ETF investors responded positively to the prospect of additional quantitative easing by various central banks. The top 20 gold ETFs held gold to the value of US$147.2 billion, based on a closing price of US$1,658/oz as at 31 December 2012.

In the technology space, demand contracted by 5% in 2012 to c.13.8Moz, as consumers looked to lower cost alternatives as a substitute. An uptick in gold demand by smart phone and tablet manufacturers was not enough to offset declines in PCs and laptops.

Traditionally, central banks have been sellers of the precious metal, a trend that changed in 2009 following the financial crisis. Official sector demand remained strong in 2012 as central banks continued to diversify foreign exchange reserves, with net purchases totalling c.17.2Moz. As in previous years, emerging market economies accounted for a significant share of net purchases, as they continued to diversify reserves, targeting a rise in the level of gold holdings.

Gold supply
Overall mine production was broadly flat in 2012, at c.91.6Moz. Contributing factors to flat mine supply include lower than anticipated growth rates at new projects, delayed ramp up, effects of industrial action, higher costs, lower grades and environmental and permitting issues. However, despite these pressures, China, Russia and South Africa were some of the nations recording an increase in total annual production.

Recycled gold contributed c.52.3Moz to the supply chain, a decrease of 1% versus 2011. Absolute recycling activity in the industrialised world was relatively subdued when compared to recycling supply from developing nations, such as India, where a weaker Rupee pushed local prices to record levels, helping consumers to cash in on higher prices.

The gold price in 2013
2012 was a challenging year for many gold mining companies, gold traders and investors. In 2013, the underlying drivers of gold demand (negative real interest rates, continued official sector demand, anaemic economic growth, the ongoing European sovereign debt crisis, geopolitical risk in the Middle East, bloated central bank balance sheets, possibility of higher inflation) are likely to influence gold's price trajectory, perhaps lending it some support.

During January and February, the average gold price was 3% lower than during the same period in 2012. On 15 February 2013, the Group announced that it had entered into financing contracts to sell 399Koz of gold over a period of 14 months, guaranteeing a minimum revenue stream of c.US$664 million. The hedging arrangements do not reflect the Company's view of future gold prices, but do increase the certainty of a significant proportion of cash flows as the Group continues its capital investment programme.

The average annual gold price rose to a record US$1,668/oz in 2012 (US$/oz)

2012	**1,668**
2011	1,571
2010	1,225
2009	973
2008	872
2007	697
2006	604
2005	445
2004	410
2003	364
2002	310
2001	271

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

The global gold industry
Recent exploration and development efforts have failed to compensate for depletion at current deposits. This has shifted development back to known deposits previously deemed unfeasible due to high capital and operating costs. A shortage of quality non-refractory discoveries has refocused attention on previously known assets, some of which are refractory in nature.

0.4%
The 2012 increase in global gold mine production

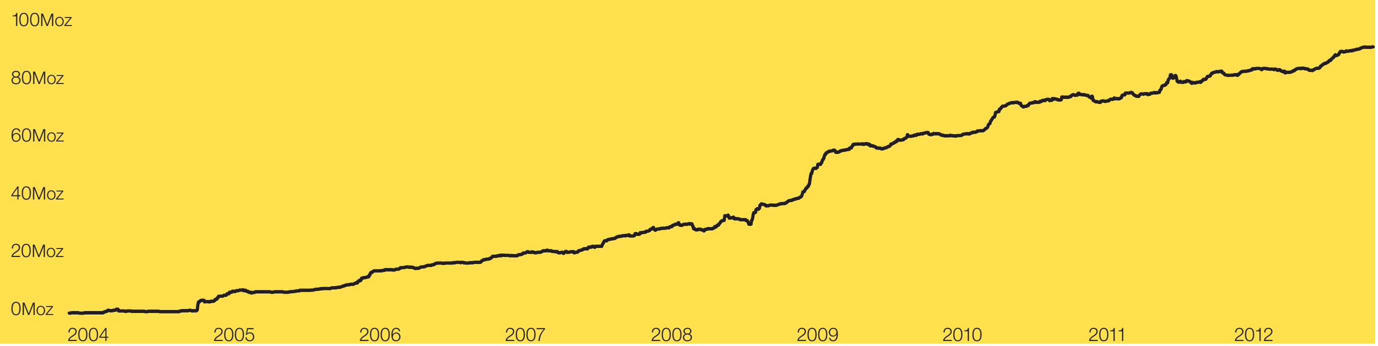
The Russian gold industry
Russia is one of the world's leading producers of natural resources and one of the richest in terms of its mineral reserves and resources. In addition to substantial quantities of untapped gold, Russia benefits from a highly qualified workforce and an established culture of mining innovation.

6.4 Moz
Mine production across Russia in 2012

The Amur gold industry
An area rich in mineralisation, the Amur region also benefits from well developed infrastructure, including ample electricity supply and proximity to key federal roads and railways. Petropavlovsk's gold production accounted for 77% of total gold production in the Amur region in 2012, confirming our position as a Russian Far East mining champion. The Group's core hard-rock assets are based in this region.

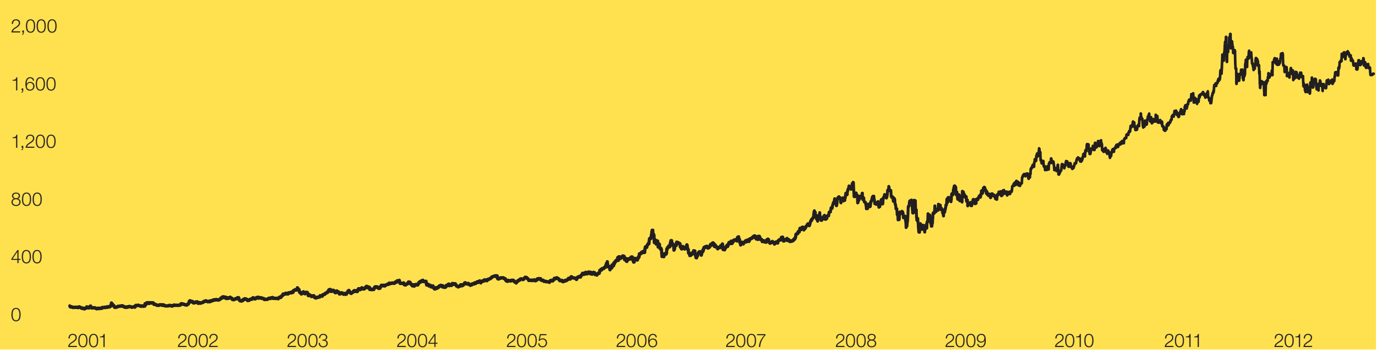
0.9 Moz
The quantity of gold produced in the Amur region during 2012, broadly in line with 2011 output

Gold ETFs continued to grow their holdings in 2012, with a record 88.8Moz held as at 31 Dec 2012



Source: *UBS.*

Gold has appreciated by 504% since 2001 (US$/oz)



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

Our Key Performance Indicators

The Group's executive management and Board of Directors regularly review a number of Key Performance Indicators ("KPIs") in order to monitor and assess the performance of the Group and its progress at implementing its strategy.

Revenue (US$ million)

2012	**1,375.2**
2011	1,262.5
2010	612.0
2009	472.3
2008	381.7

Definition
Revenue is the fair value of the consideration received or receivable through the sales of gold, iron ore and, since July 2012, 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 a source of funding for the Group's working capital requirements, capital expenditure and debt service obligations.

Performance in 2012
Group revenue totalled US$1.4 billion, a c.9% increase on 2011, due to a c.4% increase in gold sold, a c.3% increase in the average realised gold sales price and a 14% increase in IRC's revenue.

Net (Loss)/Profit (US$ million)

2012	**(243.9)**
2011	240.5
2010	23.0
2009	144.8
2008	22.7

Definition
Profit for the period is calculated by deducting operating and net finance expenses, taxation and any relevant share in joint ventures 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 2012
Net profit declined from US$240.5 million in 2011 to a loss of US$(243.9) million in 2012 due to the following: increased operating expenses, a US$197.9 million write-down following the adjustments to fair value of IRC's net assets, impairment charges of US$130.5 million relating to the carrying value of some exploration and development assets, a US$26.9 million loss on the disposal of a number of non-core assets as well as stockpile impairment charges amounting to US$29.7 million.

Underlying EBITDA (US$ million)

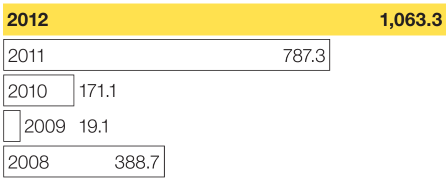
2012	**487.7**
2011	597.1
2010	195.5
2009	224.5
2008	136.4

Definition
Underlying EBITDA is the profit for the period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, amortisation and impairment charges. A reconciliation of profit for the year and underlying EBITDA is set out in note 36 to the financial statements.

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 2012
Underlying EBITDA for the period was US$487.7 million, an 18% decrease on 2011 primarily due to an increase in the total average cash costs per ounce.

Net debt (US$ million)

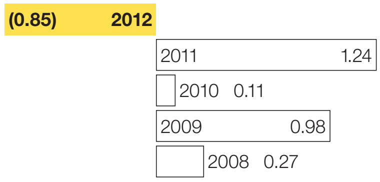


Definition
Net debt is set out in note 31 to the financial statements. As at 31 of December 2012, net debt excludes IRC (31 December 2011 net debt includes IRC unless stated otherwise). Net debt and committed, but undrawn, debt facilities for the Group are not comparable to prior periods because of a change in accounting basis.

Relevance
Net debt shows the extent to which a business is in debt and is accumulated in order to assist with the financing of project development.

Performance in 2012
Net debt as at 31 December 2012 (excluding IRC which is now held for sale) was US$1,063.3 million, reflecting the exploration and development capital expenditure during the year and was in line with the Group's net debt position as at 30 June 2012, despite its capital expenditure during the second half of the year.

Basic earnings (Loss) per Share (EPS) (US$)

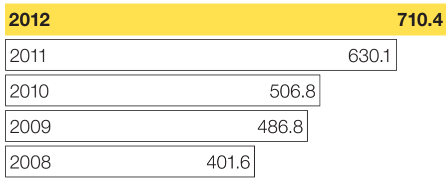


Definition
Basic EPS is calculated as the net profit attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the reporting period.

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

Performance in 2012
In 2012, the Company generated a loss per share of US$0.85 due to the impairment of IRC and certain non-core exploration projects compared with a profit per share in 2011 of US$1.24. The weighted average number of Ordinary Shares in issue during the period increased marginally from 186,478,361 in 2011 to 186,518,041 in 2012.

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, for the applicable years. The gold production figure consists of gold recovered during the period and adjusted for the movement of gold still in circuit.

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 2012
Total attributable gold production for 2012 amounted to 710,400oz, a 13% increase compared to 630,100oz in 2011 and exceeding the target of 700,000oz.

Our Key Performance Indicators
continued

Total cash costs for hard-rock mines (US$/oz)

Year	US$/oz
2012	**805**
2011	586
2010	548
2009	303
2008	330

Definition
Cash costs for hard-rock operations is the cost of producing and selling an ounce of gold from the Group's hard-rock mines (currently Pokrovskiy, Pioneer, Malomir and Albyn). The key components of operating cash expenses are wages, electricity, diesel, chemical reagents and consumables. The key cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate. Refinery and transportation costs are variable costs dependent on the production volume and comprise approximately 0.5% of the gold price. Royalties, comprising 6% of the gold price, are also a variable cost dependent on the production volume and the realised gold price.

Relevance
The Group closely monitors its future and projected costs to track and benchmark the on-going efficiency and effectiveness of its operations. This monitoring includes analysing the fluctuations in the components which constitute cash costs and cost per tonne mined and processed to identify whether and where efficiencies may be made.

Performance in 2012
Group total cash costs for hard-rock assets of US$805/oz represent a 37% increase compared to 2011. This was due to a 26% scheduled decrease in processed grades at the RIP and heap-leach operations at the Group's hard-rock mines, an increase in stripping ratios at Pioneer, Malomir and Pokrovskiy, a decrease in recovery rates at Malomir due to the processing of transitional ore types and strong inflationary pressures. The unit costs* for mining per cubic metre and processing per tonne were essentially unchanged from 2011 levels or have improved at some sites despite inflation, due to increased efficiencies implemented at operations, economies of scale and cost control measures.

*Unit costs are the costs incurred by the Group to mine 1m^3 of rock and/or process one tonne of ore.

Total average cash costs (US$/oz)

Year	US$/oz
2012	**875**
2011	662
2010	608
2009	309
2008	319

Definition
The total average cash cost is the cost of producing and selling an ounce of gold from a combination of the Group's hard-rock and alluvial operations. The key components of operating cash expenses are wages, electricity, diesel, chemical reagents and consumables. The key cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate. Refinery and transportation costs are variable costs dependent on the production volume and comprise approximately 0.5% of the gold price. Royalties, comprising 6% of the gold price, are also a variable cost dependent on the production volume and the realised gold price.

Relevance
The Group closely monitors its future and projected costs to track and benchmark the on-going efficiency and effectiveness of its operations. This monitoring includes analysing the fluctuations in the components which constitute cash costs and cost per tonne mined and processed to identify whether and where efficiencies may be made.

Performance in 2012
Total average cash costs were US$875/oz in 2012, a 32% increase on 2011. Alluvial operations, which are heavily reliant on diesel (c.20% of total alluvial cash costs), saw total cash costs at US$1,314/oz in 2012 compared to US$1,167/oz in 2011, up 13% in line with inflation. 2012 alluvial production amounted to 13% of the Group's total gold output, in line with 2011.

Average gold sales price (US$/oz)

Year	US$/oz
2012	**1,670**
2011	1,617
2010	1,253
2009	975
2008	845

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
As gold is the key commodity produced and sold by the Group, a higher average realised gold sales price is a key driver behind the Group's revenues.

Performance in 2012
The Group's average realised gold sales price increased by 3%, from US$1,617/oz in 2011 to US$1,670/oz in 2012.

Group Lost Time Injury Frequency Rate per million man hours worked (LTIFR)

2012	**2.4**
2011	1.9
2010	3.0
2009	3.8
2008	5.0

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 and as such, IRC is excluded from these figures.

Relevance
In line with its aim to operate in a safe and responsible manner, the Group closely monitors a range of safety performance indicators and data. This enables the Group to measure the effectiveness of its safety policies and procedures to mitigate defined safety risks. LTIFR is considered to be a key indicator as it strips out any increases in injuries which may have resulted from growth in employees, thus giving a fairer indication of whether OH&S procedures have been successful in reducing the number of accidents over a specific period.

Performance in 2012
As at 31 December 2012, the Group had recorded 47 lost time accidents. Of the 47 accidents, only one was considered major. There were zero on-site fatalities in 2012 (2011: zero). This resulted in a Lost Time Injury Frequency Rate for 2012 of 2.4 accidents per one million man hours worked. The improved OH&S performance in 2011 and 2012 is thought to be the direct result of more rigorous OH&S training.

Mineral Resources (Moz)

2012	**25.1**
2011	24.6
2010	23.1
2009	11.9
2008	8.9

Definition
A Mineral Resource is a 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.

Relevance
JORC Mineral Resources are a measure of the size of the Group's mining and exploration assets, indicating the medium to long-term production growth potential. As part of its strategy, the Group has been placing emphasis on finding gold Resources and Reserves through exploration. Implementing this strategy has enabled the Group to replenish gold Resources depleted from its operations in recent years and increase its Mineral Resource base.

Performance in 2012
Due to the success of its recent exploration programme, the Group added 1.95Moz of Mineral Resources (before depletion) in 2012. Taking into account depletion and the disposal of non-core assets, this resulted in a net increase of 0.45Moz to 25.1Moz of Mineral Resources. All Mineral Resources discovered in 2012 were from areas at, near, or adjacent to existing mines. Approximately 90% of the new Resources are non-refractory, suitable for processing at existing on-site RIP plants or via the Group's heap-leach facilities. The remaining Resources are refractory and suitable for processing at the future POX Hub.

Ore Reserves (Moz)

2012	**10.0**
2011	10.2
2010	9.1
2009	6.8
2008	3.6

Definition
An Ore Reserve is 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 *Proven* and *Probable*.

Relevance
JORC Ore Reserves are a measure of the size of the Group's mining assets and the profitable ounces available for the production. As part of its strategy, the Group has been placing a strong emphasis on finding new gold Resources and Reserves through exploration. By implementing this strategy, the Group has been able to replenish gold reserves depleted from its operations in recent years and increase its Ore Reserve base.

Performance in 2012
Following a successful 2012 exploration programme, the Group's hard-rock Ore Reserves stand at 10.0Moz (after depletion). Despite depleting 760,000oz of high-grade material in 2012, the average Resource grade for 2012 remained flat versus the average Resource grade for 2011, indicating that the new 2012 Ore Reserves were of a similar quality to those mined in 2012.

Chief Financial Officer's Statement
Andrey Maruta

Financial highlights

	2012 US$ million	2011 US$ million
Group Revenue	1,375.2	1,262.5
Underlying EBITDA [(a)]	487.7	597.1
Net (loss)/profit	(243.9)	240.5
Basic (loss)/earnings per share	US$(0.85)	US$1.24
Total attributable gold production ('000oz)	710.4	630.1
Gold sold ('000oz)	703.2	676.3
Average gold price received (US$/oz)	1,670	1,617
Total average cash cost per ounce	US$875/oz	US$662/oz
Total cash cost per ounce for hard-rock mines	US$805/oz	US$586/oz

(a) Reconciliation of underlying EBITDA is included in note 36 to the consolidated financial statements on page 168 of this Annual Report.

	31 December 2012 US$ million	31 December 2011 [(b)] US$ million
Cash and cash equivalents	159.2	213.5
Loans	(870.0)	(668.0)
Convertible bonds [(c)]	(352.5)	(338.8)
Restricted bank deposit	–	6.0
Net debt	(1,063.3)	(787.3)

(b) Including IRC.

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

Revenue

	2012 US$ million	2011 US$ million
Revenue from precious metal operations	1,182.9	1,101.3
Revenue generated by IRC	139.7	122.2
Revenue from other operations	52.6	39.0
Total	1,375.2	1,262.5

Physical volumes of gold production and sales

	2012 oz	2011 oz
Gold sold from Pokrovskiy, Pioneer, Malomir, Albyn	610,847	589,681
Gold sold from alluvial operations	92,342	86,628
Movement in gold in circuit and doré bars	7,211	(46,225)
Total attributable production	710,400	630,084

Group revenue during the period, US$1,375.2 million, 9% higher than the US$1,262.5 million achieved in 2011.

A 7% growth in revenue from the precious metals operations, from US$1,101.3 million in 2011 to US$1,182.9 million in 2012, contributed to US$81.6 million increase in revenue. Gold remains the key commodity produced and sold by the Group, comprising 85% of total revenue generated during 2012. The Group's average gold price realised increased by 3% from US$1,617/oz in 2011 to US$1,670/oz in 2012, which contributed a US$36 million increase in revenue from the precious metals operations. The physical volume of gold sold increased by 4% from 676,309oz in 2011 to 703,189oz in 2012, which contributed a further US$45 million increase in revenue from the precious metals operations.

The Group sold 260,290oz of silver in 2012 at an average price of US$30/oz, compared with 247,285oz in 2011 at an average price of US$32/oz.

IRC revenue increased by US$17.5 million, from US$122.2 million in 2011 to US$139.7 million in 2012. IRC sold 980,543 tonnes of iron ore concentrate and 121,238 tonnes of ilmenite and recorded revenue of US$128.5 million from the combined sales. A further US$11.2 million of revenue was contributed by IRC's mining research institute Giproruda, in line with US$11.8 million in 2011.

Revenue generated as a result of third-party work by the Group's in-house service companies contributed to US$13.6 million increase in revenue from US$39.0 million in 2011 to US$52.6 million in 2012. This was primarily attributable to sales generated by the Group's engineering and research institute, Irgiredmet of US$47.8 million in 2012 compared to US$34.6 million in 2011, primarily through engineering services and the procurement of materials, consumables and equipment for third parties.

Chief Financial Officer's Statement
continued

Exceptional items
The Group has disclosed 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 period, the following items are considered as exceptional:

- US$197.9 million write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell, based on IRC's share price of HK$1.17 as at 31 December 2012, following classification of IRC group as "held for sale" as at 31 December 2012;
- US$99.5 million impairment provision recognised against the carrying values of the assets associated with gravel production and gold exploration operations at Yamal deposits, which further development is pending as the Directors continue to evaluate the available options for unlocking the value of these assets, and US$8.8 million reversal of associated deferred tax liabilities;
- US$21.0 million impairment provision recognised against the carrying values of the associated assets following the decision to suspend development of the thermal coal deposits associated with the K&S project of IRC indefinitely;
- US$30.7 million loss on disposal of 65% in Omchak, reversing the associated US$25.5 million gain on re-measuring equity interest in Omchak in 2010 when Omchak was acquired by the Group;
- US$1.3 million gain on disposal of the Group's wholly-owned exploration project SeverChrome;
- US$2.4 million gain on disposal of the Group's wholly-owned alluvial operations of Uduma.

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

	2012			2011		
	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million
Operating profit/(loss)	227.0	(345.2)	(118.2)	397.8	2.4	400.2
Profit/(loss) for the period	92.5	(336.4)	(243.9)	238.1	2.4	240.5

EBITDA, operating profit and expense before exceptional items

	2012 US$ million	2011 US$ million
EBITDA before exceptional items	489.2	581.9
Depreciation, amortisation and impairment	(270.2)	(174.3)
Foreign exchange gains/(losses)	8.0	(9.8)
Operating profit before exceptional items	227.0	397.8

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

	2012 US$ million	2011 US$ million
Precious metals	306.6	486.4
IRC	(0.4)	18.8
Other	(0.5)	(4.6)
Operating profit before exceptional items as contributed by business segments	305.7	500.6
Central administration	(86.7)	(93.0)
Foreign exchange gains/(losses)	8.0	(9.8)
Operating profit before exceptional items	227.0	397.8

Precious metals

This year, the precious metals operations generated a segment profit before exceptional items of US$306.6 million compared to US$486.4 million in 2011.

Cost of precious metals operations

The average total cash cost per ounce for the Group increased from US$662/oz in 2011 to US$875/oz in 2012, primarily reflecting the scheduled decrease in grades processed at Pioneer and Malomir, decrease in recovery rates at Malomir due to processing of transitional ore, ramp up of the RIP plant at Albyn and industry-specific cost inflationary pressures. The increase in total cash costs was partially offset by the increase in physical volume of gold sold and the increase in the average realised gold price, resulting in a net US$87 million decrease in the operating cash profit and underlying EBITDA. Depreciation increased by US$95.0 million compared to 2011, reflecting the increase in volumes of ore processed and the commencement of production at the Albyn mine. Non-exceptional impairment charges were US$10.1 million in 2012 compared to US$40.1 million in 2011 and a further US$29.7 million impairment of ore stockpiles was recorded in 2012.

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 stripping ratios, volumes of ore mined and processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate.

Compared with 2011, there was ongoing inflation of Rouble-denominated costs, in particular: electricity costs increased by 2%, the cost of chemical reagents increased by 45%, the cost of diesel increased by 16% and consumables prices increased by up to 6%. The impact of Rouble price inflation was partially decreased by the 6% average depreciation of the Rouble against the US Dollar, with the average exchange rate for the period going from 29.4 Roubles per US Dollar in 2011 to 31.1 Roubles per US Dollar in 2012.

Refinery and transportation costs are variable costs dependent on the production volume and comprise approximately 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.

	2012		2011	
	US$ million	%	US$ million	%
Staff cost	161.4	25.2	124.5	26.8
Materials	174.4	27.3	110.3	23.8
Fuel	103.5	16.2	66.0	14.2
Electricity	43.0	6.7	32.0	6.9
Other external services	105.7	16.5	95.1	20.5
Other operating expenses	51.5	8.1	36.3	7.8
	639.5	100.0	464.2	100.0
Movement in ore stockpiles, work in progress and bullion in process attributable to gold production [(a)]	(168.0)		(133.5)	
Total operating cash expenses	471.5		330.7	

(a) Excluding deferred stripping.

	Hard-rock mines				Alluvial operations	Other	Total	2011 Total
	Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	US$ million	US$ million	US$ million	US$ million
Revenue								
Gold	560.2	145.6	173.0	141.2	153.8	0.1	1,173.9	1,093.5
Silver	4.9	1.3	0.7	0.2	0.7	–	7.8	7.8
Other external sales	–	–	–	–	–	1.2	1.2	–
	565.1	146.9	173.7	141.4	154.5	1.3	1,182.9	1,101.3
Expenses								
Operating cash expenses	171.1	57.0	80.1	71.7	90.0	1.6	471.5	330.7
Refinery and transportation	2.7	0.7	0.8	0.6	1.1	–	5.9	5.9
Other taxes	5.5	1.4	5.4	2.3	1.2	0.4	16.2	11.4
Royalties	33.1	8.6	10.0	8.6	9.3	0.1	69.7	66.4
Deferred stripping costs	37.7	1.5	–	–	20.3	–	59.5	41.0
Depreciation and amortisation	70.6	35.8	47.8	44.0	12.3	3.1	213.6	118.6
Impairment of ore stockpiles	24.8	4.9	–	–	–	–	29.7	–
Impairment charges	–	–	–	–	–	10.1	10.1	40.1
Operating expenses	345.5	109.9	144.1	127.2	134.2	15.3	876.2	614.1
Share of results of joint ventures	–	–	–	–	–	–	–	(0.8)
Share of results of associates	–	–	–	–	(0.1)	–	(0.1)	–
Result of precious metals operations before exceptional items	219.6	37.0	29.6	14.2	20.2	(14.0)	306.6	486.4
Physical volume of gold sold, oz	334,348	86,904	104,948	84,647	92,262	80	703,189	676,309
Cash costs								
Operating cash expenses	171.1	57.0	80.1	71.7	90.0	1.6	471.5	330.7
Refinery and transportation	2.7	0.7	0.8	0.6	1.1	–	5.9	5.9
Other taxes	5.5	1.4	5.4	2.3	1.2	0.4	16.2	11.4
Deduct: co-product revenue	(4.9)	(1.3)	(0.7)	(0.2)	(0.7)	–	(7.8)	(7.8)
Operating cash costs	174.4	57.8	85.6	74.4	91.6	2.0	485.8	340.2
Operating cash cost per oz, US$	522	665	816	878	993	–	691	503
Royalties	33.1	8.6	10.0	8.6	9.3	0.1	69.7	66.4
Deferred stripping costs	37.7	1.5	–	–	20.3	–	59.5	41.0
Total cash costs	245.2	67.9	95.6	83.0	121.2	2.1	615.0	447.6
Total cash costs per oz for hard-rock mines, US$	734	782	911	980			805	586
Total cash costs per oz for alluvial operations, US$					1,314		1,314	1,167
Total average cash costs per oz, US$							875	662

IRC
IRC generated a segment loss before exceptional items of US$0.4 million compared to a profit of US$18.8 million in 2011.

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 decreased by US$6.3 million, from US$93 million in 2011 to US$86.7 million in 2012.

Interest income and expense

	2012 US$ million	2011 US$ million
Investment income	2.1	3.1

The Group earned US$2.1 million interest income on the cash deposits with banks.

	2012 US$ million	2011 US$ million
Interest expense	87.6	52.4
Less interest capitalised	(13.4)	(14.0)
Other	0.8	1.2
Total	75.0	39.6

Interest expense increased by US$35.4 million from US$39.6 million in 2011 to US$75.0 million 2012. Interest expense for the period was comprised of US$28.9 million effective interest on the convertible bonds and US$58.7 million interest on bank facilities. US$13.4 million of interest expense was capitalised as part of mine development costs within property, plant and equipment (2011: US$14 million).

	2012 US$ million	2011 US$ million
Other finance losses	13.6	2.4

Included in Other finance losses is a realised US$12.4 million fair value loss on gold option contracts traded by the Group.

Chief Financial Officer's Statement
continued

Taxation

	2012 US$ million	2011 US$ million
Tax charge	39.3	120.8

The Group pays corporation tax under the UK, Russia and Cyprus tax legislation. The statutory tax rate is 24.5% in the UK and 20% in Russia (2011: 26.5% in the UK and 20% in Russia).

Total tax charge for the period comprised US$39.3 million, arising primarily in relation to the Group's precious metals operations.

The Group made corporation tax payments of US$67 million in aggregate (2011: US$60 million) in Russia.

Earnings per share

	2012	2011
(Loss)/profit for the period attributable to equity holders of Petropavlovsk PLC	US$(159.7) million	US$230.9 million
Weighted average number of Ordinary Shares	186,518,041	186,478,361
Basic (loss)/earnings per ordinary share	US$(0.85)	US$1.24

Basic loss per share for 2012 was US$(0.85) compared to US$1.24 basic earnings per share in 2011. The key factor affecting the basic earnings per share was the decrease of net profit for the period attributable to equity holders of Petropavlovsk PLC from US$230.9 million in 2011 to a net loss US$159.7 million in 2012. The total number of Ordinary Shares in issue as at 31 December 2012 was 187,860,093 (31 December 2011: 187,860,093).

Financial position and cash flows

	At 31 December 2012 US$ million	At 31 December 2011 US$ million
Cash and cash equivalents	159.2	213.5
Borrowings	(1,222.5)	(1,006.8)
Restricted bank deposits	–	6.0
Net debt at the end of the year	(1,063.3)	(787.3)

Key movements in cash and net debt

	Cash US$ million	Debt US$ million	Restricted bank deposit US$ million	Net debt US$ million
As at 1 January 2012	213.6	(1,006.8)	6.0	(787.3)
Net cash generated by operating activities before working capital changes	499.6			
Changes in working capital	(89.4)			
Capital expenditure	(620.9)			
Amounts drawn down under bank facilities, net	331.2	(331.2)		
Interest accrued	–	(87.6)		
Interest paid	(71.3)	71.3		
Proceeds from disposal of subsidiaries, net of liabilities settled	7.7	–		
Proceeds from disposal of Group's interests in joint ventures and available-for-sale investments	0.5	–		
Dividends paid	(35.2)	–		
Corporation tax paid	(67.0)	–		
Re-classified as assets held for sale and associated liabilities	(18.0)	124.5	(6.0)	
Other cash and non-cash movements, net	8.4	7.3		
As at 31 December 2012	159.2	(1,222.5)	–	(1,063.3)

Net cash generated from operations before working capital changes primarily reflects US$487.7 million total EBITDA.

Analysis of the US$89.4 million increase in working capital is set out below.

- US$119.9 million is attributed to the increase in inventories, including:
  - US$106.5 million increase in ore stockpiles, primarily reflecting US$19.3 million increase in the balance of refractory ore at Malomir and US$78.5 million increase in the balance of ore stockpiles at Pioneer as a result of the increased cost of mining and physical volume of ore in stockpiles; and
  - US$18.6 million increase in gold work in progress reflecting the corresponding increase in the scale of production.
- The effect of the above was partially offset by a US$12.1 million decrease in accounts receivable and a US$18.4 million increase in trade and other payables.

As at 31 December 2012, the Group had committed, but undrawn facilities, of US$153.2 million in aggregate and IRC had had committed, but undrawn facilities, of US$230.6 million.

Chief Financial Officer's Statement
continued

Capital expenditure

In 2012, the Group spent a total of US$478.7 million on its gold projects compared to US$643.5 million spent in 2011. The key areas of focus this year were expansion of the plants at Pioneer, Malomir (including flotation circuit) and Albyn and on the payments of POX contracts.

In addition, IRC spent US$142.2 million, primarily on the development of the K&S project, due to be commissioned in mid-2014, compared to the US$157.6 million spent in 2011.

	Exploration expenditure US$ million	Development expenditure and other CAPEX US$ million	Total US$ million	2011 Total US$ million
Pokrovskiy and Pioneer	22.7	76.0	98.7	146.7
Malomir	2.5	94.2	96.7	190.5
POX	–	33.1	33.1	56.8
Albyn	22.4	156.5	178.9	168.3
Guyana	6.6	1.3	7.9	9.6
Visokoe	3.5	2.7	6.2	4.7
Alluvial operations	5.6	13.2	18.8	26.1
Other	7.2	10.4	17.6	29.6
Total invested in precious metals operations	70.5	387.4	457.9	632.3
Upgrade of in-house service companies	–	20.8	20.8	11.2
Total invested in Gold Division	70.5	408.2	478.7	643.5
Kuranakh	–	15.9	15.9	15.6
K&S	0.1	122.3	122.4	121.1
Other	0.3	3.6	3.9	20.9
Total invested in IRC	0.4	141.8	142.2	157.6
Total	70.9	550.0	620.9	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, which for 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 2012	31 December 2011
GB Pounds Sterling (GBP : US$)	0.62	0.65
Russian Rouble (RUR : US$)	30.37	32.2

The Group recognised foreign exchange gains of US$8.0 million in the year ended 31 December 2012 (2011: foreign exchange losses of US$9.8 million) arising primarily on Russian Rouble denominated net monetary assets and GB Pounds Sterling denominated net monetary liabilities.

Subsequent Events

Issue of shares by IRC Limited

On 17 January 2013, IRC Limited entered into conditional subscription agreements with each of General Nice Development Limited ("General Nice") and Minmetals Cheerglory Limited ("Minmetals") for an investment by General Nice and Minmetals in new shares of IRC Limited at the price of HK$0.94 (approximately US$0.12) for up to approximately HK$1,845 million (approximately US$238 million) in aggregate (the "Share Issue Transaction"). In addition, IRC Limited has also entered into a long-term offtake arrangement ("Offtake Arrangement") with General Nice and Minmetals in respect of the IRC group's products. Further details are set out in note 35 to the consolidated financial statements on pages 167 and 168 of this Annual Report.

The Directors expect that the General Nice initial subscription will take place in April 2013 and further, expect the subscription in relation to the General Nice Further Subscription Shares and Minmetals Subscription to take place within six months from the General Nice Initial subscription completion date in April 2013.

IRC has been classified as "held for sale" and presented separately in the consolidated balance sheet as at 31 December 2012. The carrying value of IRC's net assets has been adjusted to fair value less estimated transaction costs, based on IRC's share price of HK$1.17 as at 31 December 2012 which the Directors consider to be the best measure of fair value. US$197.9 million write-down adjustment was recognised during the year, accordingly. Subsequent to 31 December 2012, the IRC share price has traded between HK$0.87 and HK$1.45. Assuming total investment completion occurs, the Group's interest in the share capital of IRC Limited would be diluted from 63.13% held at 31 December 2012 to 40.43% and IRC would become an associate to the Group. The carrying value of IRC will be adjusted based on its market share price on that date which will be the basis for valuation of the Group's share in IRC. Subsequent to that, IRC will be accounted for using the equity method of accounting taking into consideration the Group's share in IRC results and subject to any impairment.

Hedging agreements

In February 2013, the Group has entered into financing contracts to sell a total of 399,000oz of gold over a period of 14 months ending in March 2014 at an average price of US$1,663/oz.

Final dividend

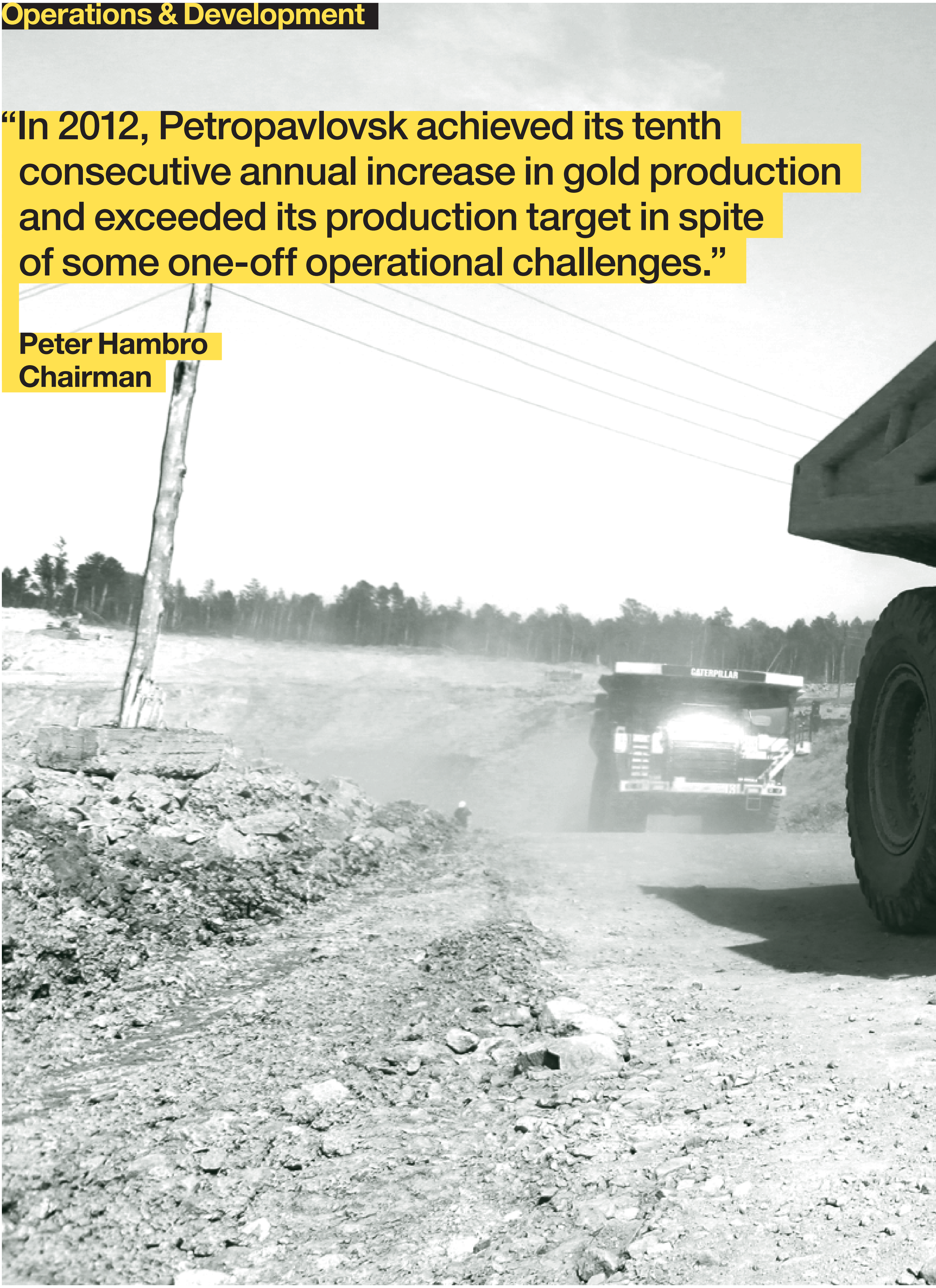
On 27 March 2013, the Board of Directors resolved to recommend a final dividend comprising a cash payment of £0.02 per Ordinary Share together with an entitlement to new shares with an attributable value of £0.05 per Ordinary Share.

Going concern

As set out in note 2.1 to the consolidated financial statements on page 125 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.

"In 2012, Petropavlovsk achieved its tenth consecutive annual increase in gold production and exceeded its production target in spite of some one-off operational challenges."

Peter Hambro
Chairman



Mining at Pioneer
Producing 333,600oz of gold in 2012, Pioneer remains the Group's flagship mine and one of the largest gold mines in Russia.

Our Assets
Pokrovskiy

Future home of new processing hub

Key facts

Deposit type
Hard-rock, non-refectory ore. Central Pokrovskiy deposit surrounded by satellites

Mining
Open-pit. Three deposits mined in 2012 (Pokrovka-1, Pokrovka-2 and Zheltunak)

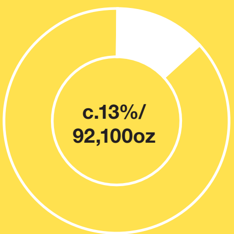
Processing
On-site 2.1Mtpa RIP plant, to be converted into POX Hub; 800Ktpa heap-leach facility

Licence acquired
1994 as an early-stage exploration deposit; developed in-house

Commissioned
1999 (heap-leach), 2002 (RIP Plant)

JORC Reserves and Resources
1.5Moz Mineral Resources; 0.7Moz Ore Reserves

Contribution to the Group's 2012 gold production



Progress against 2012 strategic priorities

Explore
Continued exploration of Pokrovskiy and satellite deposits

Develop
Good progress made with construction of the POX Hub, remains on track for commissioning in Q1 2014

Operate
92,100oz of gold produced in 2012, ahead of the Group's original production target

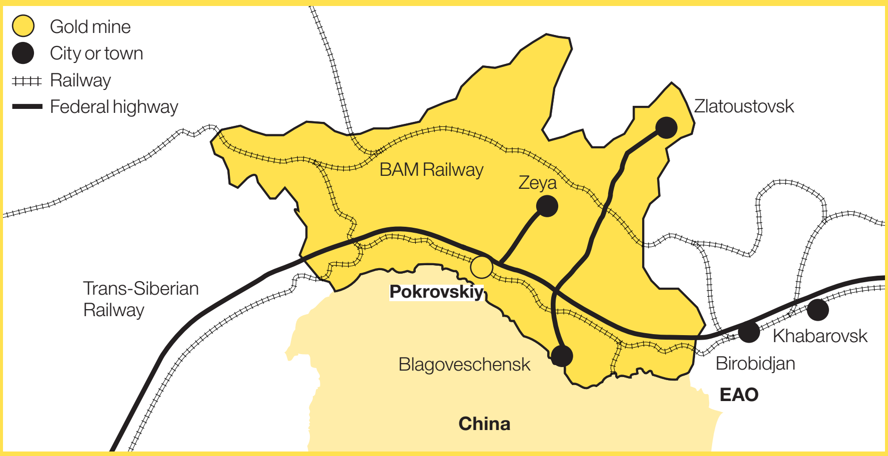
Sustainability
Achieved ISO 14001 accreditation

2013 Strategic priorities for Pokrovskiy

Continued progress with construction of the autoclave facility and the oxygen plant for the POX Hub ahead of expected Q1 2014 commissioning

Location

Pokrovskiy is situated in the Amur region, one of Russia's key gold-producing districts. The mine benefits from excellent transport links, including all-weather roads and close proximity (c.10km) to the Trans-Siberian Railway.



Go to page 41 for more on exploration work at Pokrovskiy

Go to page 43 for a breakdown of Reserves and Resources for Pokrovskiy

Pokrovskiy is a hard-rock open-pit gold mine located in the Amur region, Russian Far East. To date the mine has produced more than 1.75Moz of gold.

The mine was the Group's first: Pokrovskiy was acquired by Dr Pavel Maslovskiy (Honorary President) when it was still at an early stage of exploration and when Peter Hambro (Chairman) agreed in 1994 to help finance its development, the Group was created. The mine produced its first gold from its heap-leach facility in 1999. In 2002, its resin-in-pulp ("RIP") plant was commissioned.

Today, Pokrovskiy in its current form is drawing to the end of its mine life. Current mining Reserves are 0.7Moz (as at 31 December 2012). With the original pit at the Pokrovka-1 deposit almost depleted, mining has been gradually shifting to satellite deposits (flanks) of Pokrovka-1.

In order, amongst other factors, to take advantage of the mine's existing facilities and infrastructure, the Group decided to convert the mine into a "hub" for the processing of its refractory ores, using pressure oxidation ("POX") technology.

Performance in 2012
During 2012, Pokrovskiy produced 92,100oz (91,800oz in 2011), exceeding the Group's forecast for the year by 35% due to new, good quality Reserves identified and mined at the mine and its flanks, as a result of exploration conducted during 2011 and 2012.

The majority of the ore processed in 2012 came from the Pokrovka-2 deposit together with ore from the Zheltunak satellite deposit, as the Group was pushing back the south wall of the main pit at the Pokrovka-1 deposit.

2012 total cash costs at the Pokrovskiy mine were US$782/oz, representing a 3% increase compared to 2011 (US$759/oz).

“Pokrovskiy, our original mine, will also be the home of our future POX Hub and of the next phase of our development. However, more than ten years after it first produced gold, quality new Resources continue to be discovered and production forecasts were substantially exceeded in 2012. The year ahead is a step-up for us, as conversion to the POX Hub begins. The future of the company is still being built at Pokrovskiy.”

Sergey Ermolenko
CEO

Pokrovskiy mining operations

	Units	Year ended 31 December 2012	Year ended 31 December 2011
Total material moved	m^3 ’000	9,702	6,560
Ore mined	t ’000	1,453	1,076
Average grade	g/t	1.7	2.0
Gold content	oz ’000	78.1	68.1

Pokrovskiy processing operations

	Units	Year ended 31 December 2012	Year ended 31 December 2011
Resin-in-Pulp (“RIP”) Plant			
Total milled	t ’000	1,692	1,782
Average grade	g/t	1.7	1.63
Gold content	oz ’000	94.3	93.3
Recovery rate	%	82.8	82.0
Gold recovered	oz ’000	78.1	76.6
Heap-leach			
Ore stacked	t ’000	890	819
Average grade	g/t	0.7	0.8
Gold content	oz ’000	19.9	20.7
Recovery rate	%	70.4	73.7
Gold recovered	oz ’000	14.0	15.2
Total gold recovered	oz ’000	92.1	91.8

Outlook for 2013

It is expected that the RIP plant will continue processing the high-grade oxide Reserves during the first half of 2013. During the second half of the year, two of the three existing milling lines will be converted for the POX Hub, with the remaining capacity of c.600Ktpa available for processing non-refractory ore from H2 2014 to 2017.

In 2013, the Pokrovskiy mine is expected to contribute approximately 8% to 9% of the Group’s total production.

2014–2018 Outlook

Gold production from non-refractory ore at Pokrovskiy in 2013 is scheduled at approximately 57,000oz, declining further in subsequent years.

From 2014, two out of the three existing milling lines will be utilised for the POX Hub, with the remaining capacity of c.600Ktpa available for processing non-refractory ore from H2 2014 to full depletion.

The Group plans to continue the heap-leach operations at Pokrovskiy, treating low grade ore as normal, until full depletion of the economically viable Reserves.

The Group continues exploration at the Pokrovskiy satellite deposits and surrounding areas, including Zheltunak and Taldan, for additional non-refractory ores.

Our Assets
POX Hub

What is POX and refractory ore?
Refractory ore “locks in” gold particles, making it difficult or even impossible to extract the gold using conventional cyanide leaching methods, such as heap-leaching or processing through a resin-in-pulp (“RIP”) plant. Pressure oxidation (“POX”) is considered to be the most effective and environmentally-friendly method for treating refractory ore, and for these reasons, was selected for implementation by the Group. POX has been used worldwide in metals extraction since the 1950s, and in Russia since the 1970s, and there are a number of POX plants for gold extraction operational worldwide.

The Group is turning its Pokrovskiy mine into a regional “hub”, which will use POX technology to extract gold from refractory material, which constitutes approximately half of the Group’s current gold Reserves. Approximately 70% of the Group’s refractory Reserves are located at the Malomir mine and the remaining 30% at the Pioneer mine. Flotation concentrate from refractory ore from the Malomir and Pioneer mines is scheduled to be processed at the Pokrovskiy POX Hub, starting from H1 2014 and H1 2015 respectively. Ore will be converted at these mines into a high-grade flotation concentrate (4% to 5% of original volumes of ore) then trucked by existing roads to Pokrovskiy for processing in high pressure autoclaves, which are currently being installed. After autoclave treatment, gold will be leached and smelted into doré bars, utilising the Pokrovskiy mine’s current facilities.

Once commissioned, the Group’s POX plant will be the largest and most technologically advanced POX facility for processing gold in Russia, able to extract gold from a wide range of refractory ores. This will support long-term, sustainable gold production from the Malomir and Pioneer mines. Given the scale of the POX Hub and the abundance of undeveloped refractory gold deposits in Russia, particularly in the Russian Far East, the POX Hub also, potentially, opens a new dimension for the Group’s future growth.

Advantages of a centralised hub at Pokrovskiy
The centralisation of refractory processing, as opposed to developing smaller facilities at each site, provides substantial savings on capital costs as well as operational benefits. Pokrovskiy was chosen as a location for a centralised hub, as it offered a number of practical and logistical advantages.

Go to pages 32 to 33 for more on the development of the Malomir flotation plant

Go to page 59 for more on employee training

Go to page 61 for more on POX and the environment

Go to page 68 for a description of the operational risk identified in relation to the POX Hub, its potential impact and the actions being undertaken by the Group to mitigate this risk

The new POX facility will utilise sections of the existing Pokrovskiy RIP plant. Existing mills will be used to re-grind refractory concentrate and to prepare the lime. The RIP circuit will be used to recover gold after autoclave treatment. The doré smelting facility, plant laboratories and most of the auxiliary facilities will also be utilised, as they were during non-refractory production.

The Pokrovskiy site benefits from an existing, qualified workforce and excellent, existing infrastructure, including a power supply, roads and close proximity to the Trans-Siberian railway. Unlike Malomir, Pokrovskiy is conveniently located close to a significant limestone deposit, which is essential for neutralising chemicals released in the POX process. This was considered to be more cost-efficient and environmentally-friendly than trucking lime to the Malomir site.

The location of the POX plant at Pokrovskiy ensures the Group has adequate space for tailings dams, without a need to use a costly and often unreliable “dry tailings” technique. The POX process is extremely sensitive to chlorine ion concentration: storing large volumes of water in a conventional tailings dam enables the Group to control the re-circulation of the processing water, minimising the possibility of a build-up of the chlorine concentration.

The flotation plants
To avoid the costly trucking of freshly-mined ore to the Pokrovskiy site, ores will first be upgraded to a high-grade concentrate using flotation. Flotation is a process widely applied in the industry to extract sulphides and other minerals from the ore. Using this process, approximately 95% of the barren minerals may be rejected, reducing the mass sent for downstream treatment to the remaining approximate 5%. Currently, the Group is installing a flotation plant at the Malomir mine, scheduled for commissioning in Q3 2013, and a flotation plant at Pioneer, scheduled for commissioning in 2015.

POX plant design
The Pokrovskiy POX plant will be the largest and most advanced of its kind in Russia.

The Pokrovskiy POX plant comprises of four autoclaves, each weighing 116.5 tonnes with a length of 15m and a height of 4m, with an effective volume of 66m^3, with a combined, estimated capacity to process c.400,000t of refractory concentrate a year. The provision of four separate autoclave vessels provides a large degree of operational flexibility, as they enable concentrates from different sources, bearing different properties, to be separately and simultaneously processed without compromising on the gold recovery or the productivity of the plant.

Pokrovskiy’s infrastructure – close to existing federal roads and c.10km from the Trans-Siberian railway – opens up opportunities to bring refractory concentrate for processing from other sources. Thus the operational parameters of the plant are designed to successfully recover gold from any known refractory gold deposit.

Quality control and assurance
It is the Group’s firm belief that strict and comprehensive quality control and assurance is paramount for the successful and timely delivery of such an ambitious and technically complex project.

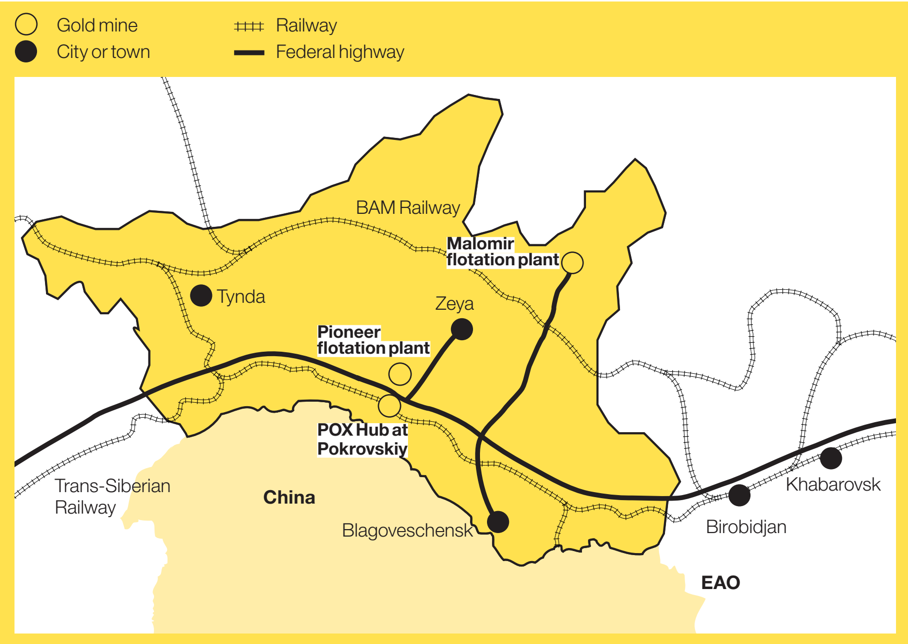
From the very beginning, the Group has employed what it considers to be the best technical experts available in Russia to supervise the conceptual, and later, the detailed technical project design, as well as project implementation.

The Group employs Outotec (Finland) Oy (“Outotec”) as its principal partner in delivering the project. Outotec, together with the Group’s experts, has carefully selected only reputable and experienced manufacturers for all of the principal equipment to be used in the POX Hub and related flotation plants.

Outotec and the Group’s representatives were supervising all stages of the manufacturer’s internal quality control. The Group also engaged NDE Group to provide independent assurance of the manufacturers’ quality.

"It is important to emphasise how exciting it has been working on a new technology which has the potential to revolutionise gold mining for decades to come. We have left nothing to chance; from our choice of partners to the materials we have used at our facilities, we have always opted for the best. We have dedicated much time and effort researching autoclave technology and optimising operational parameters at our specialist R&D centre and at our pilot POX plant."

Viktor Fedorov
Head of Business Development – POX Hub



2012 on-site development

During 2012, all the major equipment for the POX plant was manufactured and delivered to the Pokrovskiy site. The installation of equipment is now well under way. The four autoclave vessels were placed on their foundations and work is now progressing on completing the autoclave building around them.

The oxygen plant building has been completed and all principal equipment has been installed and assembled. Work is currently progressing on completing internal pipework and equipment interconnections. Work has also started on the filtration section of the POX, where the pulp discharged from the autoclave will be treated prior to RIP leaching.

During the installation stage in 2013, all critical operations will be performed only by fully qualified, reputable contractors. In particular, this applies to the high pressure vessels internal lining and to the high pressure pipe welds. For the lining the Group employs DSB Säurebau GmbH (Germany), which is a world leader in this field and for the welding works, the Group is in advanced-stage negotiations with certified and reputable third parties who have extensive experience of similar works. The Group is budgeting radiographic inspection for 100% of high pressure welds. This will check the quality and will instantly identify any defects. In addition, where practicable, the suitability of the materials selected for the autoclave inner gear were tested in real operational conditions using the Group's test autoclave.

Construction work is being conducted by the Group's specialist mine construction subsidiary, Kapstroi, and specialised subcontractors.

Outotec will supervise and advise during the commissioning stage of the POX Hub.

Pilot test plant and other test work

The Group operates a pilot POX plant, the only one of its kind in Russia, which enables the Group to conduct test work and staff training, reducing the technical risks associated with the POX project.

The pilot POX plant operates the same automation system as the one that will be implemented on the full-scale future plant, which enables the Group to test both the system and to train personnel.

Since commissioning in 2010, extensive test work has been conducted at the pilot POX plant on the design parameters and operating scenarios of the POX Hub. This work has been supplemented by extensive test work at the Group's specialist R&D centre, Gidrometallurgiya, which is equipped with miniature autoclave equipment and headed by a leading global expert in POX technology.

The pilot POX plant has enabled the Group to test how the materials selected for the full-scale plant will react in the aggressive, highly acidic, high temperature and high pressure environment.

During 2012, the Group continued to conduct test work and staff training, reducing the technical risks associated with the POX project at its pilot POX plant. The most significant test work included:

- The identification of measures to increase the resistance of equipment to the effects of corrosive materials;
- A reduction in the negative effect of chlorine ions on the extraction of gold by using fresh water and perfecting the technique of using recycled water with constant control of the chlorine content. Using these results, the Group is making provisions for all the necessary equipment to measure and control chlorine and other potential contaminants;
- The treatment of POX flotation concentrate with low, less than 0.6%, organic carbon content;
- Perfecting a filtering technique for testing conditioned autoclave slurry, confirming the design capacity and the required number of press-filters using a model percolator.

During 2013, the Group is intending to conduct additional test work in order to fine tune the technical parameters during the POX process (such as the distribution of oxygen in sections of the autoclave) for various blends of Pioneer and Malomir concentrate and for the support operations (re-grinding, acid treatment, cleaning of chlorides, conditioning, dewatering and neutralisation).

Once the POX Hub is commissioned, the Group is intending to continue to use the pilot test plant to simulate various operating scenarios, such as establishing optimal temperatures and input of reagents with different mixtures of concentrates. In addition, the Group is intending to continue to use the pilot test plant for staff training.

Our Assets
Pioneer

Remains the Group's flagship mine

Key facts

Deposit type
Hard-rock. Contains both refractory and non-refractory ore

Mining
Open-pit

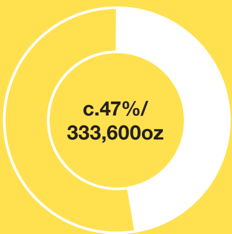
Processing
On-site 6.0Mtpa to 6.6Mtpa RIP plant plus heap-leach facility

Licence acquired
2001 as a greenfield project; developed in-house

Commercial start up
2008. Plant subsequently expanded in 2009, 2010 and 2012 into bulk tonnage operation

JORC Reserves and Resources
4.5Moz Mineral Resources, 2.2Moz Ore Reserves

Contribution to the Group's 2012 gold production



Progress against 2012 strategic priorities

Explore
New areas of high-grade ore discovered; further potential to significantly expand the existing Resource base

Develop
Successful expansion of the RIP plant and heap-leach facility

Operate
Production of 333,600oz, 17% higher than the Group's target at the start of 2012

Sustainability
Achieved ISO 14001 accreditation

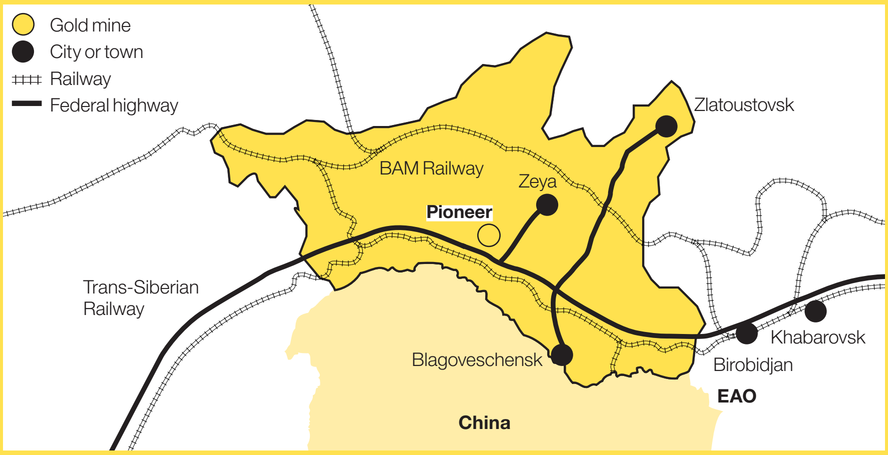
2013 Strategic priorities for Pioneer

Continued exploration of newly-identified mineralised zones to upgrade into JORC Resources

Preliminary exploration of geological trends within the newly-acquired licence area to the north

Location

Pioneer is located in the Amur region, approximately 35km from Pokrovskiy. Pioneer benefits from good infrastructure links, including all-weather roads linking the mine to Pokrovskiy, local towns and the Trans-Siberian Railway.



Pioneer is a hard-rock open-pit mine in the Amur region, Russian Far East. The mine was acquired as a greenfield deposit in 2001 and subsequently explored, developed and constructed in-house and finally commissioned in 2008. It is now one of the largest gold mines in Russia in terms of its annual gold production and its processing capacity. It is also the Group's flagship mine, producing c.47% of its total gold production in 2012.

Ore at Pioneer is currently processed in an on-site RIP plant. In addition, during the warmer months of the year, the mine's heap-leach facility is used to process its lower grade ore.

Since commissioning in 2008, in line with the Group's long-term plan, Pioneer's RIP plant has undergone three expansions. In 2008, the plant was generally only processing higher-grade ore from the Andreevskaya deposit, however, these expansions have enabled the cost-effective processing of bulk tonnage, lower grade ores from across the mine site. The plant now has a processing capacity of 6.0Mtpa to 6.6Mtpa

The current processing facilities at Pioneer only enable the mine to produce gold from approximately 38% of its current Reserves. The remaining ore is refractory – resistant to direct cyanidation processing methods. In order to process this ore, the Group is planning to construct a flotation plant at Pioneer, which will convert the refractory ore into flotation concentrate. This will then be sent for processing to the POX Hub at the Pokrovskiy mine, located approximately 35km away by road. Planned commissioning of the Pioneer flotation plant is Q1 2015.

Go to page 40 for more on exploration work at Pioneer

Go to page 44 for a breakdown of Reserves and Resources for Pioneer

"It is good to see that the positive impact of the efficiency measures our team introduced at Pioneer continues to be felt. Together with these, our team's work at commissioning the fourth milling line ahead of schedule and the use of the latest mining machinery, meant we beat our production target yet again. "

Sergey Ermolenko
CEO

Performance in 2012
During 2012, Pioneer produced 333,600oz of gold. This was 17% higher than the 286,000oz target set at the start of the year, due to an increase in the quantity of ore mined and the introduction of new mining machinery (a new Hitachi 15m^3 excavator and four Belaz 140-tonne capacity dump trucks). Production also benefited from the inclusion of new exploration results into the mine plan, and the earlier than planned commissioning of the plant's fourth 1.8Mtpa milling line (increasing the Pioneer plant's design throughput capacity by 40% to c.6.0Mtpa – 6.6Mtpa). The most significant impact on the increase in production was the higher grades mined compared to JORC reserve assessments.

In addition, the heap-leach facility was expanded during the year and processed 946,000 tonnes of ore, an increase of 134% over the amount processed in 2011.

2012 total cash costs at Pioneer were US$734/oz, representing 38% increase compared to 2011 (US$530/oz).

Outlook for 2013
The increased capacity of the processing plant will enable the cost-efficient treatment of the low-grade stockpiles accumulated on site, which stood at approximately 5.3Mt as at 1 January 2013. It is expected that a significant proportion of the stockpile reserves will be processed during 2013. The high stripping volumes, required in 2012 to access high-grade oxide material for the plant, are expected to decrease significantly when the mine starts treating refractory ore in 2015, thus reducing the cost of mining operations. The Group plans to increase volumes of heap-leach operations up to 1.4Mt during 2013.

In 2013, the Pioneer mine is expected to contribute c.40% to 45% of the Group's total production.

Pioneer mining operations

	Units	Year ended 31 December 2012	Year ended 31 December 2011
Total material moved	m³ '000	40,826	31,615
Ore mined	t '000	9,135	8,473
Average grade	g/t	1.8	1.8
Gold content	oz '000	532.4	479.3

Pioneer processing operations

	Units	Year ended 31 December 2012	Year ended 31 December 2011
Resin-in-Pulp ("RIP") Plant			
Total milled	t '000	5,305	4,700
Average grade	g/t	2.2	2.8
Gold content	oz '000	379.7	421.8
Recovery rate	%	86.0	83.2
Gold recovered	oz '000	326.7	351.0
Heap-leach			
Ore stacked	t '000	946	405
Average grade	g/t	0.6	0.7
Gold content	oz '000	19	11
Recovery rate	%	37.3	73.6
Gold recovered	oz '000	7.0	8.1
Total gold recovered	oz '000	333.6	359.1

2014–2018 Outlook
Pioneer is scheduled to produce gold from non-refractory ore for the next three years, with production gradually moving into refractory ore treatment from 2015 when the first flotation line is scheduled for commissioning.

The RIP plant is scheduled for a full upgrade to production of flotation concentrate in 2017. The mine's heap-leach facility will continue gold recovery from the remaining oxide Reserves beyond 2020.

The Group's geologists consider Pioneer to have strong exploration potential, with many geological indications underexplored. Accordingly, the Group is continuing its extensive exploration programme at Pioneer with a view of extending production from non-refractory ore.

Our Assets
Malomir

Shifting towards a new stage in its development

Key facts

Deposit type
Hard-rock. Contains both refractory and non-refractory mineralisation

Mining
Open-pit, two pits currently active

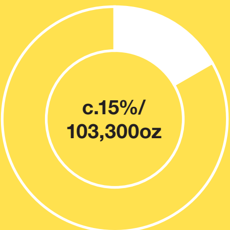
Processing
On-site RIP plant, processing 180Ktpm

Licence acquired
2003 as a greenfield project; developed in-house

Commercial start up
2010, plant expanded in 2011 and 2012; flotation plant to be commissioned in Q3 2013

JORC Reserves and Resources
9.73Moz Mineral Resources; 4.04Moz Ore Reserves

Contribution to the Group's 2012 gold production



Progress against 2012 strategic priorities

Explore
Significant exploration results received from brownfield exploration at Quartzitovoye

Develop
Continued development of the flotation plant ahead of commissioning

Operate
Gold production of 103,300oz, a 17% increase on 2011

Sustainability
Achieved ISO 14001 accreditation

2013 Strategic priorities for Malomir

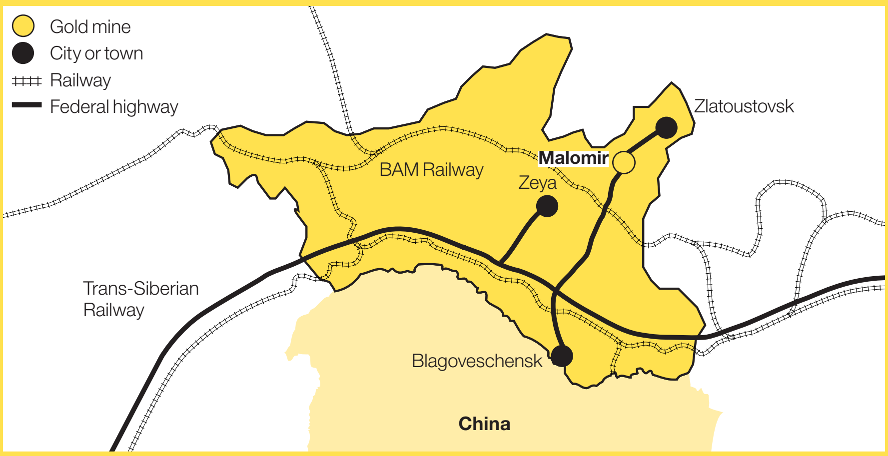
Commissioning of the flotation plant in Q3 2013

Mining and stockpiling of refractory ore from Malomir Central pit

Continuation of exploration programme at areas adjacent to Quartzitovoye

Location

Malomir is situated in the north-eastern part of the Amur region. An all-weather road links the mine to Pokrovskiy, which lies approximately 670km away.



Malomir is an open-pit gold mine in the north-west part of the Amur region, the Group's first in this area.

Malomir was acquired by the Group in 2003 as a greenfield site. In the same year, the Group confirmed the existence of 161,000oz of P_1 Russian Category resources. Today, thanks to the strength of the Group's in-house exploration team, the mine has 9.73Moz of JORC-compliant Mineral Resources and 4.04Moz Ore Reserves. Exploration of the mine is still on-going and yielding promising results.

During the earlier years of Malomir's development, in-house exploration also established the existence of two additional, previously unknown, major deposits within the licence area: one high-grade oxide deposit, Quartzitovoye, and an additional refractory deposit, Ozhidaemoye (the other refractory deposit being the Malomir deposit itself). This led the Group to decide on a two-stage development for the Malomir project: the first stage being the processing of the non-refractory (oxide) material in an on-site RIP plant, the second being the processing of the refractory material in an on-site flotation plant, with the resultant flotation concentrate being transported to Pokrovskiy for processing in the POX Hub. Stage 1 of Malomir's development is now drawing to an end and the mine is shifting to the processing of the refractory ores.

Performance in 2012
Malomir produced 103,300oz of gold in 2012. This was an increase of 17% on the amount produced in 2011 (88,500oz) despite lower recoveries due to the treatment of the transitional ore. This was achieved due to expansion of the sorption circuit carried out at the plant in Q1 2012.

Go to page 40 for more on exploration work at Malomir

Go to pages 44 to 45 for a breakdown of Ore Reserve and Mineral Resources for Malomir

"Working at Malomir is not only about production; exploration is a significant part of the operations. This strategy has proved fruitful this year, when we identified a significant amount of easy-to-process oxide Resources at the site, with possible significant impact on future production. But most exciting is the work we are doing on the POX flotation plant, which is very quickly rising before our eyes."

Sergey Ermolenko
CEO

Malomir mining operations

	Units	Year ended 31 December 2012	Year ended 31 December 2011
Total material moved	m^3 '000	16,042	9,094
Ore mined	t '000	3,438	1,981
Average grade	g/t	1.7	2.4
Gold content	oz '000	191.4	152.5

Malomir processing operations

	Units	Year ended 31 December 2012	Year ended 31 December 2011
Resin-in-Pulp ("RIP") Plant			
Total milled	t '000	2,278	925
Average grade	g/t	2.0	3.8
Gold content	oz '000	149.2	111.6
Recovery rate	%	69.2	79.3
Gold recovered	oz '000	103.3	88.5

Total cash costs at Malomir were US$911/oz, an increase of 48% on 2011 (US$615/oz).

The majority of ore processed in 2012 came from the non-refractory Quartzitovoye ore body with some additions from the oxidised and transitional upper levels of the refractory ore body in the Central pit. Malomir has relatively small Reserves of the transitional ore situated in contact with the refractory ore body, which is difficult to model, estimate and mine selectively due to its complex morphology. For the majority of the year, Malomir was mining and processing large quantities of such transitional ore, which resulted in a lower recovery rate compared to 2011.

The expansion of the sorption/desorption circuit in February 2012, which increased the plant's processing capacity to 180Ktpm, offset the effect of the lower recoveries resulting from the transitional ore.

During the year, the Group also continued to mine high-grade, oxide Ore Reserves from the Quartzitovoye open-pit, which are suitable for processing in the RIP plant, with higher recovery rates. This required the removal of large volumes of waste. The resulting high stripping coefficient, together with the lower recoveries from the transitional ore, adversely affected cash costs.

Outlook for 2013
The results of Malomir's 2012 exploration programme identified c.240,000oz of additional oxide Resources in an ore body parallel to the Quartzitovoye pit (internal preliminary estimate) allowing the processing of non-refractory ore to continue at the mine throughout 2013 and Q1 2014. Work is currently being undertaken to outline new Reserves for inclusion in the 2013 mine plan. This may significantly improve the current production and cash cost forecast for the mine for 2013.

During 2012, construction continued on the mine's 4Mtpa flotation plant, which is currently scheduled to be commissioned in Q3 2013. As Malomir refractory ore bodies are shallow and of a bulk nature, they will be mined with a low strip ratio. Therefore, mining costs are expected to significantly decrease when the mine moves to producing from its refractory Reserves.

Since the beginning of 2013, the Malomir plant worked at throughputs of more than 200Ktpm due to the softness of ore. This is expected to continue throughout the remainder of 2013.

In 2013, the Malomir mine is expected to contribute c.14% to 15% of the Group's total production.

2014–2018 Outlook
Malomir is scheduled to continue production from non-refractory Reserves at least until the end of 2013. The plant's two flotation lines are to be commissioned in Q3 2013.

The Group is intending to continue exploration at, and around, the Malomir mine, including the newly-acquired licence area, which may result in a discovery of further non-refractory Reserves.

A RIP plant with a capacity of 0.7Mtpa will remain available after commissioning of the flotation circuit to process any further non-refractory Reserves.

Our Assets
Albyn
Ramp-up to full production

Key facts

Deposit type
Hard-rock, 100% non-refractory ore

Mining
Open-pit, 2 pits currently active

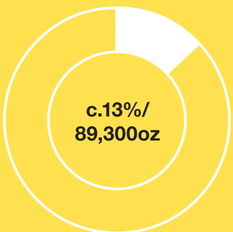
Processing
On-site RIP plant, capacity c.3.6Mtpa to 4.0Mtpa

Licence acquired
2005

Commercial start up
2011

JORC Reserves and Resources
1.27Moz of Ore Reserves and 3.47Moz of Mineral Resources

Contribution to the Group's 2012 gold production



Progress against 2012 strategic priorities

Explore
Continued exploration success at Elginskoye

Develop
Additional 1.8Mtpa RIP plant commissioned, doubling production capacity

Operate
Annual production of 89,300oz; ramp-up of RIP plant to full capacity

Sustainability
Achieved ISO 14001 accreditation

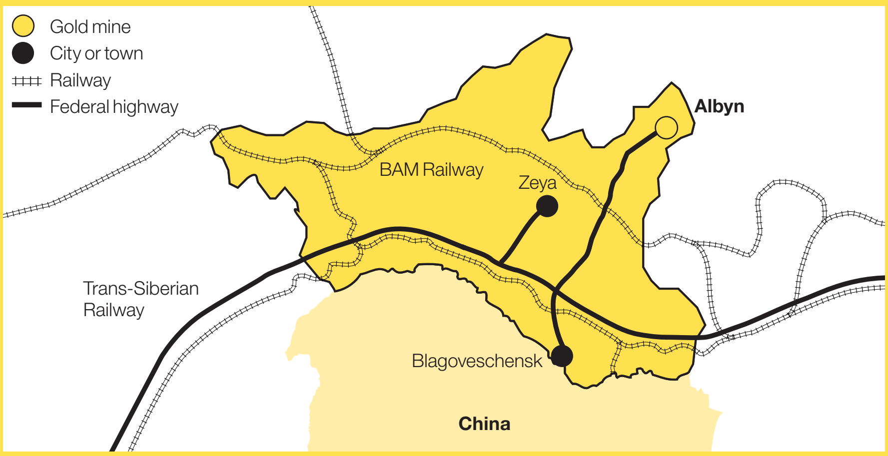
2013 Strategic priorities for Albyn

Continued exploration at Elginskoye, which remains highly prospective and under-explored

Exploration of the newly-acquired Afanasevskaya licence area in H2 2013

Location

Albyn lies approximately 150km from Malomir in the Selemdja district in the north-east of the Amur region, a region of previously extensive alluvial mining.



Albyn is an open-pit, hard-rock mine. Ore is processed in an on-site RIP plant, which was commissioned in Q4 2011 and expanded in Q2 2012.

Ore at Albyn contains coarse particles of visible gold. Metallurgical tests completed to date have shown with confidence that mineralisation is entirely non-refractory, so the ore at Albyn may be processed in the current plant rather than trucked to the POX Hub throughout the duration of the mine life.

The main Albyn licence area was acquired as a greenfield project in 2005 and is still not fully explored. In 2010, the Group obtained two further licences: Elginskoye, a highly prospective 325km^2 licence area 15km west of the RIP processing plant, and Kharginskoye, which borders Albyn to the south and covers extensions of Albyn's mineralised structure. Both licence areas are significantly under-explored, but work conducted to date has indicated that they offer potential.

Performance in 2012
During 2012, Albyn produced 89,300oz of gold following the commissioning of the mine in November 2011.

The mine went through a prolonged ramp-up period during H1 2012 and reached its design throughput capacity of c.3.6Mtpa to 4.0Mtpa in August 2012, following the commissioning of the second processing line in June 2012. This period was complicated by the challenging infrastructure, adverse weather conditions, and in particular, problems with the water and electricity supply. The team successfully overcame these challenges and, by Q3 2012, the plant was working to its design capacity of 3.6Mtpa to 4.0Mtpa of ore.

Total cash costs at Albyn were US$980/oz, hampered by the mine's prolonged ramp-up period.

Go to page 41 for more on exploration work at Albyn

Go to page 45 for a breakdown of Ore Reserve and Mineral Resources for Albyn

"A new mine is never without its challenges, and Albyn was no exception. During its first six months in production, we battled through difficult weather conditions and infrastructure challenges. However, our experience as a successful mine developer came into play and full capacity was reached by the third quarter. We now look forward to a year of uninterrupted operations, as Albyn lives up to its potential."

Sergey Ermolenko
CEO

Albyn mining operations

	Units	Year ended 31 December 2012	Year ended 31 December 2011
Total material moved	m^3 '000	10,604	1,608
Ore mined	t '000	2,219	150
Average grade	g/t	1.4	1.5
Gold content	oz '000	101.7	7.0

Albyn processing operations

	Units	Year ended 31 December 2012	Year ended 31 December 2011
Resin-in-Pulp ("RIP") Plant			
Total milled	t '000	2,179	39
Average grade	g/t	1.4	1.1
Gold content	oz '000	98.2	1.3
Recovery rate	%	90.9	85.6
Gold recovered	oz '000	89.3	1.1

Outlook for 2013
During 2013, the Group plans to make further improvements to the operational performance of Albyn. These include measures designed to improve the efficiency of waste rock stripping as well as to reduce dilution. Thanks to these improvements, the Group anticipates gaining access to higher grade Reserves towards H2 2013, allowing process grades to increase to the range of 1.3g/t to 1.8g/t.

It is planned that during the first half of the year, whilst scheduled stripping works are carried out, the head grades of ore through the plant will be lower than in 2012, but that should be compensated by higher grades in the second half of the year, thus resulting in an increase in average grades for the year compared to 2012.

The current base-case mining schedule is expected to significantly improve in the mid- to long-term due to good exploration results in 2012.

In 2013, the Albyn mine is expected to contribute c.20% to 21% of the Group's total production.

2014–2018 Outlook
Albyn is expected to contribute an average of 210,000oz of gold production per annum during the period from 2013 to 2018.

The Group is exploring several promising licence areas around Albyn, which are expected to significantly improve production at Albyn and prolong the life of the mine.

Our Assets
Other Projects

Alluvials

The Group produces gold from a number of alluvial deposits in the Amur and Magadan regions of Russia.

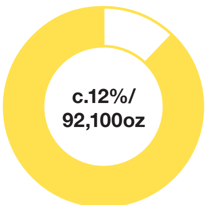
Alluvial mining, the washing of gold-bearing gravels using a sluice or dredge, is seasonal, with operations normally running from April to November, contributing to the typical skew of the Group's gold production to the second half of the year.

During 2012, the Group produced 92,100oz of gold from its alluvial operations, an increase of 3% on the amount produced in 2011 (89,600oz).

2012 total cash costs for the Group's alluvial operations were US$1,314/oz. This figure was broadly in line with expectations, as alluvial mining processes lower-grade material than hard-rock mining and is heavily reliant on diesel, the price of which increased by 16% in 2012 versus 2011. In spite of the higher cost of production, alluvial deposits are less capital-intensive than hard-rock mining and generate healthy margins in the current gold price environment.

In December 2012, the Group disposed of Uduma, a small operation in Yakutia, which is a remote region where Petropavlovsk has no other assets or interests. The disposal resulted in US$2.4 million profit and should not have a material impact on the Group's production profile.

Contribution to Group's 2012 gold production



Go to page 49 for alluvial reserves and resources

Yamal assets

The Yamal region is an area of northern Russia, which contains an estimated 90% of the country's natural gas reserves.

The Group's interest in the Yamal region is centred on the development of two adjacent gold ore bodies: Petropavlovskoye and Novogodnee Monto. Since their acquisition in 2004, the Group has completed extensive exploration and other essential technical work, including the establishment of JORC-compliant gold Mineral Resources and Ore Reserves. Metallurgical tests have proved the gold to be non-refractory. Further development of these projects is pending, as the Directors continue to evaluate the available options for unlocking the value of these assets.

In addition to the gold mineralisation, Novogodnee Monto also holds substantial Reserves of construction stone within non-mineralised overburden rock. Since late 2011, quarrying began at the site, with material processed through a mobile crushing and screening plant, producing saleable aggregate. Sales of aggregate commenced in 2012 and the Group is in negotiations with interested parties regarding further sales of aggregates.

During 2012, the Group continued a review of its existing exploration and evaluation projects and recognised a non-cash impairment charge of c.US$109.5 million against certain non-core assets, which includes the Yamal assets.

Tokur

Tokur is a hard-rock, non-refractory gold deposit located in the north-eastern part of the Amur region, halfway between the Malomir and Albyn mines. Being a former Soviet-era mine, Tokur benefits from excellent infrastructure, which led it to become a base for the Group's expansion into the area.

Although Tokur was mined extensively during the Soviet era, the deposit still contains significant JORC-compliant Mineral Resources and Ore Reserves suitable for processing in an RIP plant, or by gravitational separation.

A simple, small-scale operation involving the mining and repossessing of historical waste dumps at Tokur has been in operation since 2009. The material is washed through a sluice then put through a sorting machine, which uses an XRF analyser to separate ore from the waste. This produces a pre-concentrate of c.4g/t Au, which is suitable for processing through an RIP plant. In 2012, Tokur pre-concentrate was stockpiled for later processing at either Malomir or Albyn. A small amount of free gold is also recovered during the washing stage.

Industrial-scale production at the mine is not scheduled until 2015, with the Group's current focus in the area being on the Malomir and Albyn mines.

Go to page 47 for a breakdown of Ore Reserves and Mineral Resources for the Yamal assets

Go to pages 47 to 48 for a breakdown of Ore Reserves and Mineral Resources for Tokur

Visokoe

Visokoe is a hard-rock gold deposit located on the Yenisey Ridge area of the Krasnoyarsk region, which is home to some of Russia's largest and best-known gold deposits.

Visokoe has confirmed JORC-compliant Mineral Resources and Ore Reserves.

The Group is preparing a full feasibility study on Visokoe, which will evaluate the best options for the project's development. Extensive exploration and test work have indicated ore at Visokoe to be non-refractory and suitable for economic processing in an RIP plant or through heap-leaching.

The further development of Visokoe is not planned until after 2014, once the POX plant has been commissioned and ramped up.

In addition to Visokoe, the Group holds two further exploration licences in the Krasnoyarsk region with 540Koz of JORC refractory gold Resources. Limited work is currently being undertaken on these licenced areas, as the Group is concentrating on the development of its core projects in the Amur region.

Go to page 46 for a breakdown of Ore Reserves and Mineral Resources for Visokoe and other Krasnoyarsk assets

IRC

Petropavlovsk currently holds a majority stake in IRC, a company which produces industrial commodities in the Far East of Russia and north-eastern China. IRC is quoted on the Stock Exchange of Hong Kong Limited.

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, retaining a majority stake.

IRC's principal assets are:

- Kuranakh, an open-pit mine in the Amur region producing iron-ore and ilmenite concentrates;
- K&S, a large open-pit iron-ore mine in the neighbouring EAO, close to the border with China, which is due to be commissioned mid-2014; and
- Garinskoye, an advanced exploration project which, including the Garinskoye Flanks exploration area, is the largest of IRC's assets in terms of Russian category resources.

In January 2013, IRC announced a potential US$238 million investment in IRC by new Chinese strategic shareholders. Details of the agreement include:

- The entry into conditional agreements with General Nice (a member of a group of companies which collectively is one of the largest Chinese iron ore importers), and Minmetals Cheerglory (a wholly-owned subsidiary of China Minmetals Corporation, one of China's largest state-owned international metals and mining corporations), collectively, the "Investors", for the Investors to subscribe up to US$238 million in IRC through subscription for new IRC shares to fund production growth, in addition to an agreement to enter into long-term off-take arrangements;
- A pro-rata indemnity from General Nice in relation to the Company's existing ICBC guarantee will be implemented on full completion of the transaction, reducing the Company's present exposure under the guarantee;

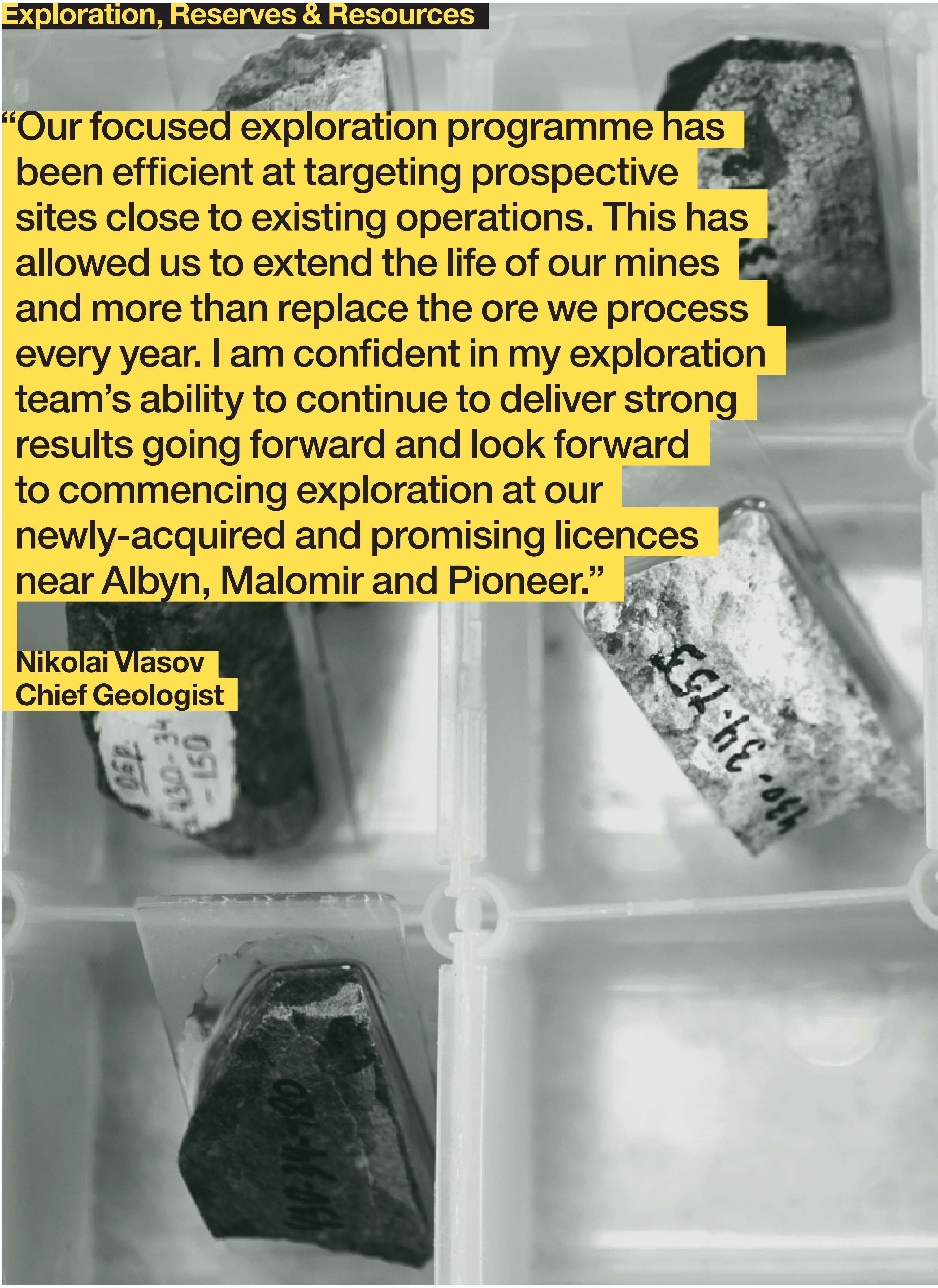
  If the transaction is fully implemented, and assuming no additional IRC shares are issued, the Company will hold c.40% of IRC's expanded share capital. Thus, IRC would cease being a subsidiary of the Group and would no longer be consolidated in the Group's financial statements. As this dilution is expected to be completed within 12 months after the reporting date, IRC has been classified as "held for sale" and presented separately in the Balance Sheet as at 31 December 2012;
- The transaction provides IRC with a strategic partnership that aligns its production growth in Russia with the trading experience of General Nice and Minmetals Cheerglory in China, reinforcing IRC's position as a Sino-Russian champion;
- Once completed, the transaction will benefit Petropavlovsk by reducing its potential financial requirements in relation to IRC, whilst enabling the Company to share the upside from IRC's strong growth potential; and
- Further information on the transaction is set out in the announcement dated 17 January 2013 issued by the Company.

The transaction was approved by Petropavlovsk shareholders at a general meeting on 7 March 2013 and by IRC shareholders at a general meeting on 11 March 2013. The Directors expect that the General Nice initial subscription will complete in April 2013 and further, expect the subscription in relation to the General Nice further subscription shares and Minmetals subscription to take place within six months from the General Nice initial subscription completion date in April 2013.

IRC reported the following key 2012 highlights:

- Production targets at Kuranakh exceeded for a second consecutive year;
- Production cash cost at Kuranakh on a unit basis fell 15%, generating a segmental EBITDA of US$16.3 million;
- K&S construction on track for the first production in early 2014;
- Garinskoye scoping study completed suggesting a low cost and fast build DSO operation;
- Exploration portfolio boosted with the acquisition of Bolshoi Seym Ilmenite Deposit and Molybdenum Exploration Portfolio; and
- IRC recognised a US$21.0 million impairment charge against the thermal coal deposits associated with the K&S project, situated in the EAO.

Further information on IRC, including IRC's 2012 Annual Report, may be found on the website www.ircgroup.com.hk



"Our focused exploration programme has been efficient at targeting prospective sites close to existing operations. This has allowed us to extend the life of our mines and more than replace the ore we process every year. I am confident in my exploration team's ability to continue to deliver strong results going forward and look forward to commencing exploration at our newly-acquired and promising licences near Albyn, Malomir and Pioneer."

Nikolai Vlasov
Chief Geologist

Samples from Elginskoye prepared for mineralogical analysis
Since acquisition in 2010, the Group has estimated 1.3Moz of JORC Resources in non-refractory ore at Elginskoye, a licence area located close to the Albyn processing plant.

Exploration Report and Licence Acquisitions

Following a c.US$70 million exploration programme during 2012, mainly at the Pioneer and Albyn projects, the Group was able to add 1.95Moz to its total Resources base.

During 2012, the Group's exploration programme was aimed at continuing to develop the Reserves and Resources base at, or close to, the Pokrovskiy, Pioneer, Malomir and Albyn mines. As a result of this programme, the Group was able to add just under 2Moz of JORC Mineral Reserves (before depletion) during 2012.

In addition, Group geologists received some very encouraging exploration results, yet to be fully reflected in the Group's JORC Reserves and Resources statement in 2013 and 2014.

New licences

The Group acquired several new licences near its existing operational sites:

- The Ivanovskaya licence, 65km north of the Pioneer mine, is situated at the extension of the regional geological trend hosting Pokrovskiy and Pioneer, as well as a number of other mineral occurrences on both the Russian and Chinese side of the border;
- Two new exploration licences surrounding the Malomir mine;
- A large (688km^2) highly prospective licence called Afanasevskaya near Albyn. The licence area borders the original Albyn licence area as well as the Elginskoye licence area, and covers all known hard-rock gold prospects north, north-west and west of the Albyn mine, within a 20km to 30km radius.

Pioneer area

- Several new zones of mineralisation identified;
- Further high-grade non-refractory and refractory mineralisation within the NE Bakhmut trend;
- A new zone of mineralisation discovered and evaluated south of Nikolaevskaya.

During 2012, exploration continued on the extensions of two high-grade zones (NE Bakhmut and Nikolaevskaya) and Alkagan-Adamovskaya, a large licence area surrounding the Pioneer mine, which the Group acquired in 2010. At NE Bakhmut, mineralisation discovered in 2011 was explored and further extended along the strike. An additional high-grade pay shoot containing both refractory and non-refractory mineralisation was identified and explored and included in the Group's Mineral Resource and Ore Reserve statement. An extension of Nikolaevskaya, including a new high-grade pay shoot (predominantly refractory) was identified and explored. Both of these new high-grade zones are open in depth, thus, could be extended by deep exploration drilling. At Alkagan-Adamovskaya, exploration identified several new zones of mineralisation. Inferred Mineral Resources for the Perspectivnaya Zone was included in the current Pioneer Mineral Resource statement. Preliminary metallurgical tests indicate that it is an oxide zone to a depth of between 10m and 21m.

The most exciting discoveries at Pioneer were made north of the NE Bakhmut zone with the discovery of three new mineralised zones: Otvalnaya, Shirokaya and Alexandra. The zones appear to follow a trend of high-grade mineralisation, as they strike parallel to the known high-grade Nikolaevskaya, Andreevskaya and NE Bakhmut in a south-north orientated trend. Because of this, the Group's geologists believe the new zones could be further sequential high-grade ore bodies; however, this is yet to be fully confirmed. Exploration at these new discoveries is at an early stage and they are intersected by widely-spaced drill holes and trenches. Selected samples showed grades in excess of 10g/t, confirming the possibility of finding substantial high-grade pay shoots. Interpretation of 2012 exploration results also allowed Group geologists to identify a significant, new, 13km-long potential gold-bearing structure running across the Alkagan-Adamovskaya from north-west to south-east through Alexandra and Shirokaya zones.

The further exploration of these new, promising discoveries will continue in 2013. Considering their structural position within the Andreevskaya and NE Bakhmut high-grade trends and their similarities in mineralogy, once fully explored these zones may significantly contribute to Pioneer's Resources and future production.

At the end of 2011, the Group completed the acquisition of Ivanovskaya, a 205km^2 licence area situated 65km north of Pioneer. The licence area is situated on an extended regional trend, which holds the Pokrovskiy and Pioneer deposits. The area is known for its gold placer deposits, thus, it is highly prospective for the discovery of hard-rock gold resources. The total resource potential of the licence area has been estimated as c.3Moz (Russian Category P_3 estimate).

Malomir

- Several zones of mineralisation discovered, contributing to an increase in Mineral Resources and Ore Reserves at Quartzitovoye.

During 2012, significant exploration results from Malomir were received from areas around the Quartzitovoye deposit. Several new zones of mineralisation to the west and east of the Quartzitovoye open-pit were identified during the year and explored in Q4 2012. These zones contained both refractory and non-refractory material.

In addition, improved confidence in Quartzitovoye Resources also enabled a portion of high-grade *Inferred* Resources to be upgraded to the *Indicated* category. Subsequently, 270Koz were added to Malomir's Ore Reserves, of which 150Koz where depleted during 2012.

In Q4 2012, the Group acquired two green field exploration licences near the Malomir mine through auctions. Their geological settings, including their proximity to historically-mined alluvial gold deposits, have indicated the possibility of identifying additional non-refractory, as well as refractory, resources which could potentially be processed at Malomir. The Group intends to explore these areas in 2013 and 2014.

Pokrovskiy and Satellites

- New mineralised zones discovered at Zheltunak;
- Exploration resumed at the Burinda deposit, a high-grade core of the mineralisation may be processed at the Pokrovskiy plant;
- Promising exploration results at the Borovaya area north-west of the Pokrovka-1 pit.

During 2012, exploration continued at and near the Pokrovskiy mine.

During 2012, successful exploration continued at the Zheltunak deposit. As a result, c.40Koz were added to Zheltunak JORC Reserves during 2012, of which 20Koz was mined and depleted during the period.

A new mineralised zone, Yuzhnaya, holding non-refractory gold Resources and Reserves, was identified and explored south of the Cross zone. The zone is shallow dipping and suitable for open-pit mining. It is planned that exploration of the potential extensions of the mineralisation will continue in 2013.

Further positive results were also received from the Sukhoi area to the east of Yuzhnaya and Cross, where grades up to 19.5g/t Au were identified in selected samples. Updated Sukhoi Resource estimates added c.55Koz of non-refractory gold Resources at an average grade of 1.1g/t Au. Of this amount, 20Koz at an average grade of 2.94g/t was classified as a *Probable* Reserve within an economical pit shell.

At the Borovaya area, which lies 8km north from Pokrovskiy, an 800m-long mineralised zone was identified and explored in Q4 2012. The gold grades identified to date are relatively low, however, mineralisation is shallow, so this area may be suitable for processing through Pokrovskiy's current heap-leach facility. Further promising exploration results include an intersection at the Daktuy prospect (2.13g/t at 5m thickness).

Taldan

The Taldan licence area is situated 150km north-west by road from Pokrovskiy. As a result of the exploration work conducted in previous years, the Group has already identified c.340,000oz of *Inferred* Resources at the Burinda deposit within the licence area. During Q4 2012, exploration of this area resumed. A pre-strip was developed in order to facilitate the detailed exploration of the high-grade portion of the deposit. The results received to date have been very encouraging and c.50,000oz at an average grade of 3g/t to 5g/t Au have been identified on the surface as potentially suitable for shipment to the Pokrovskiy mine during 2013. The Group is currently examining this possibility.

Albyn area

- A new gold deposit discovered and evaluated within the Elginskoye licence.

The Elginskoye exploration and production licence covers the Elginskoye, Grozovoye, Ulgen and several other gold prospects. The area is well known locally for its placer gold deposits, with hard-rock gold resources only previously postulated on the basis of favourable geology and few historical samples.

During 2011 and 2012, the Group commenced exploration at Elginskoye. Although only c.4km out of the 28km strike length of the main structure has been explored to date, work resulted in the discovery of c.1.3Moz of JORC gold Resources at Elginskoye and Grozovoye (1,280Koz of *Inferred* and 55Koz of *Indicated* JORC Resources). The mineralised zones are shallow dipping and potentially suitable for low cost open-pit mining. Preliminary metallurgical tests show the gold is non-refractory and should be suitable for recovery at the existing RIP plant or at a heap-leach.

During 2012, exploration also commenced on the known Ulgen prospect. Seven trenches were dug, some of which are still in progress. The first results from here are promising, with intersections of 1.8m to 16m at an average identified grade of 0.56g/t to 2.87g/t Au.

Exploration at Elginskoye will continue into 2013 with the aim of identifying higher grade areas, which will be priority targets for conversion into JORC Ore Reserves.

In 2012, the Group acquired Afanasevskaya: a large (688km^2) licence area which covers an area north, north-west and west of the Albyn deposit, joining the Albyn and Elginskoye licences into a continuous exploration area.

The area is known for its several substantial placer gold deposits (now largely depleted and excluded from the licence) and also for the Afanasevskaya and Uglichikanskoye hard-rock gold deposits and several further gold prospects.

Afanasevskaya and Uglichikanskoye were explored during the Soviet era as narrow-vein, high-grade underground mining targets. A historical (1991) resource estimate for Uglichikanskoye indicates a Russian Category C_2 resource of c.600Koz (of which c.300Koz are high-grade, at an average of 6.5g/t, and c.300Koz lower grade, at an average of 2.0g/t Au) and further c.300Koz of Russian Category P_1 prognostic resources. The Group intends to undertake further drilling and trenching within all three known targets, with a view to re-evaluating them for open-pit extraction with the ore processed at the Albyn processing plant. The Group also intends to conduct general prospecting over the Afanasevskaya licence area, as Group geologists believe further gold targets may be discovered. Exploration is anticipated to start in H2 2013, with the first results expected in 2014.

The Group anticipates that Afanasevskaya will add further Reserves suitable for processing in the Albyn RIP plant in the medium and long term.

Nimanskaya

During 2012, the first drilling was completed at Nimanskaya, a licence area acquired in 2011 and situated c.90km south of Albyn. Exploration was concentrated on an area of historical mining operations where steeply dipping, high-grade narrow veins were mined. During 2012, drilling conducted by the Group revealed a previously unknown halo of low-grade mineralisation around high-grade veins with a thickness of 7.5m to 32m and grades of 0.8g/t to 1.2g/t.

Gold Reserves and Resources

In 2012, 1.95Moz of gold were added to the Group's Mineral Resource base before depletion based on the success of the Group's 2012 exploration programme.

Based on the success of the Group's 2012 exploration programme, in 2012 1.95Moz of gold were added to the Group's Mineral Resource base before depletion; a net increase of 0.45Moz to 25.1Moz after depletion and disposal of a non-core asset during the year. Mineral Resources of 25.1Moz include 10.0Moz of *Proven* and *Probable* Reserves.

All added gold Resources are located within existing mining operations and c.90% of the gold is contained in non-refractory ore, potentially suitable for processing through existing on-site RIP or heap-leach facilities.

The ore reserve grade of these recent discoveries was similar to the 2012 processing grade and considerably higher than the average for the Group Reserves. The Group's Reserve grade was sustained in spite depletion of the higher grade ore during the year.

This Mineral Resource and Ore Reserves update is based as in the previous year, on a US$1,000/oz, long-term gold price, with the exception of Albyn and Visokoe, where current estimates use a gold price of US$1,200/oz. The estimates were prepared following an extensive exploration programme, metallurgical tests and other technical work completed by the Group. The estimates were made internally by the Group's specialist following the methodology advised by independent minerals specialists Wardell Armstrong International.

A summary of the Group's gold Ore Reserves and Mineral Resources as of 1 January 2013 is shown below.

Ore Reserves as of 1 January 2013
in accordance with JORC Code (2004)

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	17,043	1.25	0.69
	Probable	108,940	1.18	4.14
	Total *(Proven+Probable)*	125,983	1.19	4.83
Refractory	*Proven*	22,357	1.23	0.88
	Probable	129,441	1.03	4.29
	Total *(Proven+Probable)*	151,798	1.06	5.17
Total	*Proven*	39,400	1.24	1.57
	Probable	238,381	1.10	8.43
	Total *(Proven+Probable)*	277,781	1.12	10.00

– *Figures in all tables may not add up due to rounding;*
– *All Group Ore Reserves are for open-pit extraction and are reported within economical pit shells;*
– *Reserve cut-off grades vary between 0.3g/t to 0.55g/t Au depending on the proposed ore processing method.*

Mineral Resources as of 1 January 2013
in accordance with JORC Code (2004)

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	39,597	1.19	1.51
	Indicated	158,269	1.14	5.82
	Total *(Measured+Indicated)*	197,866	1.15	7.33
	Inferred	170,568	0.90	4.95
Refractory	*Measured*	29,243	1.11	1.04
	Indicated	194,544	0.93	5.83
	Total *(Measured+Indicated)*	223,787	0.96	6.88
	Inferred	255,592	0.72	5.89
Total	*Measured*	68,840	1.15	2.56
	Indicated	352,813	1.03	11.65
	Total *(Measured+Indicated)*	421,652	1.05	14.21
	Inferred	426,160	0.79	10.85

– *Mineral Resources are reported inclusive of Ore Reserves;*
– *The cut-off grade varies from 0.3g/t to 0.4g/t depending on the type of mineralisation and proposed processing method.*

– Addition of 1.95Moz of gold Mineral Resources (before depletion);
– A net increase in Mineral Resources by 0.45Moz to 25.1Moz despite depletion and the disposal of a non-core asset during the year;
– Reserve grade sustained despite depletion;
– All new Resources are located at operational mines; c.90% of are non-refractory, hence potentially suitable for processing in existing on-site facilities;
– Ore Reserves estimates continue to be based on gold price assumptions of US$1,000/oz for all projects apart from Albyn and Visokoe which were based on US$1,200/oz.

Key mines and projects

Pokrovskiy (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	–	–	–
	Probable	–	–	–
	Total *(Proven+Probable)*	–	–	–
Refractory	*Proven*	6,641	1.07	0.23
	Probable	20,468	0.71	0.47
	Total *(Proven+Probable)*	27,109	0.80	0.70
Total	*Proven*	6,641	1.07	0.23
	Probable	20,468	0.71	0.47
	Total *(Proven+Probable)*	27,109	0.80	0.70

Pokrovskiy (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	10,234	0.99	0.33
	Indicated	32,300	0.73	0.75
	Total *(Measured+Indicated)*	42,354	0.79	1.08
	Inferred	25,810	0.51	0.42
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured+Indicated)*	–	–	–
	Inferred	–	–	–
Total	*Measured*	10,234	0.99	0.33
	Indicated	32,300	0.73	0.75
	Total *(Measured+Indicated)*	42,354	0.79	1.08
	Inferred	25,810	0.51	0.42

Gold Reserves and Resources
continued

Pioneer (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	3,592	1.65	0.19
	Probable	19,478	1.02	0.64
	Total *(Proven+Probable)*	23,070	1.12	0.83
Refractory	*Proven*	13,630	1.18	0.52
	Probable	25,891	1.03	0.86
	Total *(Proven+Probable)*	39,521	1.08	1.38
Total	*Proven*	17,222	1.28	0.71
	Probable	45,369	1.03	1.50
	Total *(Proven+Probable)*	62,591	1.09	2.20

Pioneer (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	5,783	1.24	0.23
	Indicated	25,138	0.90	0.73
	Total *(Measured+Indicated)*	30,921	0.96	0.96
	Inferred	11,783	0.57	0.22
Refractory	*Measured*	20,112	1.04	0.67
	Indicated	57,398	0.90	1.67
	Total *(Measured+Indicated)*	77,510	0.94	2.34
	Inferred	47,546	0.65	0.99
Total	*Measured*	25,895	1.08	0.90
	Indicated	82,536	0.90	2.39
	Total *(Measured+Indicated)*	108,431	0.94	3.29
	Inferred	59,330	0.63	1.21

Malomir (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	–	–	–
	Probable	5,102	1.46	0.24
	Total *(Proven+Probable)*	5,102	1.46	0.24
Refractory	*Proven*	8,728	1.30	0.37
	Probable	103,549	1.03	3.43
	Total *(Proven+Probable)*	112,277	1.05	3.80
Total	*Proven*	8,728	1.30	0.37
	Probable	108,651	1.05	3.67
	Total *(Proven+Probable)*	117,379	1.07	4.04

Malomir (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	288	1.17	0.01
	Indicated	7,892	1.32	0.34
	Total *(Measured+Indicated)*	8,180	1.32	0.35
	Inferred	19,503	0.77	0.48
Refractory	*Measured*	9,131	1.27	0.37
	Indicated	137,146	0.95	4.17
	Total *(Measured+Indicated)*	146,276	0.97	4.54
	Inferred	196,902	0.69	4.36
Total	*Measured*	9,419	1.27	0.38
	Indicated	145,038	0.97	4.50
	Total *(Measured+Indicated)*	154,457	0.98	4.89
	Inferred	216,405	0.70	4.84

Albyn (Amur region)
Summary of Ore Reserves

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Proven*	1,819	1.12	0.07
	Probable	19,903	1.88	1.20
	Total *(Proven+Probable)*	21,722	1.82	1.27
Refractory	*Proven*	–	–	–
	Probable	–	–	–
	Total *(Proven+Probable)*	–	–	–
Total	*Proven*	1,819	1.12	0.07
	Probable	19,903	1.88	1.20
	Total *(Proven+Probable)*	21,722	1.82	1.27

Albyn (Amur region)
Summary of Mineral Resources

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	1,758	1.18	0.07
	Indicated	25,708	1.93	1.59
	Total *(Measured+Indicated)*	27,466	1.88	1.66
	Inferred	54,961	1.02	1.81
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Total *(Measured+Indicated)*	–	–	–
	Inferred	–	–	–
Total	*Measured*	1,758	1.18	0.07
	Indicated	25,708	1.93	1.59
	Total *(Measured+Indicated)*	27,466	1.88	1.66
	Inferred	54,961	1.02	1.81

Gold Reserves and Resources
continued

Visokoe and Olenka (Krasnoyarsk region assets)
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

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

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz)
Non-refractory	*Measured*	5,623	1.37	0.25
	Indicated	38,512	1.18	1.47
	Total *(Measured+Indicated)*	44,135	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*	5,623	1.37	0.25
	Indicated	38,512	1.18	1.47
	Total *(Measured+Indicated)*	44,135	1.21	1.71
	Inferred	35,344	1.16	1.32

Petropavlovskoye and Novogodnee Monto (Yamal region assets)
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

Petropavlovskoye and Novogodnee Monto (Yamal region assets)
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

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

Gold Reserves and Resources
continued

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

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

In addition to the hard-rock gold Mineral Resources and Ore Reserves, the Group holds a number of alluvial gold operations. Due to the size of the individual operations and the nature of the mineralisation, the Group considers the preparation of JORC reports for the alluvials to be unpractical. Therefore, the Group reports the alluvial resources and reserves following the Russian Classification System. Total alluvial gold reserves amount to c.570,000oz at an average grade of 0.36g/m^3 whilst resources (including Reserves) are c.1Moz at an average grade of 0.37g/m^3.

Alluvial reserves as of 1 January 2013
in accordance with the Russian Classification System

	Category	Volume ('000m^3)	Grade (g/m^3 Au)	Contained Metal (Moz)
Alluvial reserves	*B*	1,444	0.23	0.01
	C_1	44,770	0.37	0.54
	Sub-total *($B+C_1$)*	46,214	0.37	0.55
	C_2	3,162	0.27	0.03
	Total ($B+C_1+C_2$)	49,376	0.36	0.57

Alluvial resources as of 1 January 2013
in accordance with the Russian Classification System

	Category	Volume ('000m^3)	Grade (g/m^3 Au)	Contained Metal (Moz)
Alluvial resources	*B*	5,798	0.11	0.02
	C_1	70,956	0.33	0.76
	Sub-total ($B+C_1$)	76,754	0.31	0.78
	C_2	9,184	0.87	0.26
	Total ($B+C_1+C_2$)	85,938	0.37	1.03

– *Alluvial resources are reported inclusive of alluvial ore reserves;*

– *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;*

– *As per the Russian Classification System, ore reserves are reported at in-situ grade and tonnage, however it has been demonstrated at the time of the estimate that the material remains economically viable after application of the reasonably assumed or estimated modifying factors such as mining dilution and recovery.*

"At Petropavlovsk, we understand that sustainability must be much more than a slogan. We are committed to investing in people, operating safely and responsibly and adopting a rigorous approach to environmental standards. We are proud of our track record as a socially and environmentally responsible company and we are proud of the leading role we play in the Russian Far East."

Martin Smith
Deputy Chief Executive
Member of the HSE Committee

Pilot POX plant
An employee undergoing training at the Group's pilot POX plant ahead of commissioning of the POX Hub in Q1 2014.

Introduction to the Sustainability Report
Martin Smith
Deputy Chief Executive

We at Petropavlovsk believe that our commitment to operating in a way which is safe, efficient, responsible, transparent and sustainable, is a cornerstone of our mission to become one of the leaders in the global gold mining industry. A thriving business is one that is well regarded and supported by the communities in which it operates, manages a dedicated and motivated workforce and exercises operational control.

We recognise that our success to date has been complemented by our commitment to act in a manner which is safe, responsible and supportive of the local communities in the regions in which we operate. This remains a key fundamental of the way in which we do business.

To reflect the fact that operating sustainably is ingrained in our business model and is one of our strategic objectives, in 2012 the Board decided that the Sustainability Report should be integrated into the Annual Report. It is hoped that this will enable shareholders to get a better understanding of how sustainability is an integral part of the way we operate as a business.

To assist our shareholders in understanding our commitment to operating sustainably, in 2012, we cemented our existing approach to sustainability into a broad set of values and commitments, which are reproduced on the next page. These values and commitments were reviewed by the Board in 2013 and continue to underpin our approach to doing business, guiding our rolling Sustainability Action Plan; which outlines our key priority areas against our strategic objective to continue to run our business safely and responsibly.

This year, Petropavlovsk has reported record resources, production and revenues, our exploration programme has identified exciting new targets and the development of our POX Hub remains on track. I am pleased to report that these achievements have been made without compromising our rigorous approach to safety and environmental standards and our commitment to responsible mining.

Martin Smith
Deputy Chief Executive,
Member of the HSE Committee

"Operating sustainably is ingrained in our business model and is one of our strategic objectives."

Values and Commitments

Approach to Sustainability
At Petropavlovsk, our objective is to act in the interests of our stakeholders, including shareholders, employees and the communities in which we operate, by ensuring all our activities are efficient, responsible, transparent and sustainable.

We seek to provide a fair return to our shareholders. We aim to ensure a safe working environment and just remuneration for our employees. We play an important role in the regions where the Group operates and seek to contribute to their economic and social development. We give high priority to our responsibilities to local communities and enjoy their active support. We believe that mining companies have a particular responsibility to care for the environment and to mitigate the impact of their operations.

Sustainable development has been a key focus for the Group since its foundation.

Petropavlovsk is aligning itself with international standards and codes of practice to ensure the high standard and integrity of its operations. These include:

- **The Global Reporting Initiative ("GRI"):** The Group is implementing reporting systems in accordance with the GRI.
- **The Sustainable Development Framework of the International Council of Mining and Metals ("ICMM"):** The Group is striving to align its practices with the Sustainable Development Framework.
- **The International Cyanide Management Code ("ICMM"):** The Group is aligning its cyanide usage with the procedures and standards of the Code.
- **The International Finance Corporation ("IFC"):** IFC is an investor in the Group and has reviewed the Group's operations (most recently in July 2011). Petropavlovsk seeks to work to IFC standards.

In its management and its operations, Petropavlovsk is committed to:

- Full compliance with the legislation of the Russian Federation;
- A rigorous approach to health and safety, underpinned by close scrutiny by the Board and management. The Group's objective is to minimise the risk of accidents and of occupational illnesses, and to aim for zero fatalities. All accidents are recorded, and all serious accidents are investigated;
- A rigorous approach to environmental standards, implemented both through internal compliance measures and through external expert auditing and monitoring;
- Provision of good working facilities, high-quality equipment, and suitable living conditions at the Group's mining operations;
- Provision of appropriate and high-quality training for its employees and opportunities for career development;
- Investment in initiatives to support education in the regions where the Group operates;
- Promotion of the social and economic development of these regions both through the widening scope of the Group's operations and with the assistance of the Petropavlovsk Foundation for Social Investment;
- An active dialogue with local communities and local and regional authorities to maintain a transparent two-way flow of information and to sustain long-term, constructive relationships between the Group and these communities;
- Fair and supportive management, with appropriate procedures in place for handling disputes and grievances;
- Zero tolerance of bribery and corruption and strict compliance with the relevant legislation of the Russian Federation and the United Kingdom; and
- The on-going development of mine closure plans.

Action Plan

In line with the Group's strategic objective to operate in a sustainable and responsible manner, the Board is committed to reviewing a rolling Sustainability Action Plan annually. The Action Plan, guided by the Group's values and commitments, outlines key priority areas for the Group's year-on-year sustainable development.

Group-wide Rolling Sustainability Action Plan

	2012 Achievements	2013 Strategic Objectives and Priority Areas	2014 Strategic Objectives and Priority Areas	2015 Strategic Objectives and Priority Areas
HSE Management	Developed corporate HSE management systems in response to the planned development of the Group	Further develop corporate HSE management systems in response to the planned development of the Group	Further develop corporate HSE management systems in response to the planned development of the Group	Further develop corporate HSE management systems in response to the planned development of the Group
Community relations	Developed community relations management systems in response to the planned development of the Group	Further develop community relations management systems in response to the planned development of the Group	Further develop community relations management systems in response to the planned development of the Group	Further develop community relations management systems in response to the planned development of the Group
Petropavlovsk Foundation	Continued support of the six priority areas identified by the Petropavlovsk Foundation	Continued support of the six priority areas identified by the Petropavlovsk Foundation	Continued support of the six priority areas identified by the Petropavlovsk Foundation	Continued support of the six priority areas identified by the Petropavlovsk Foundation
Carbon emissions	Developed a system for reporting carbon emissions	Implement a system for reporting carbon emissions	Reporting carbon emissions	Reporting carbon emissions
Health and safety	Zero fatalities and a low Lost Time Injury Frequency Rate ("LTIFR")	Zero fatalities and a low LTIFR		

Mine-by-mine Rolling Sustainability Action Plan

	2012 Achievements	2013 Strategic Objectives and Priority Areas	2014 Strategic Objectives and Priority Areas	2015 Strategic Objectives and Priority Areas
Pokrovskiy	Achieved ISO 14001 accreditation Implemented ICMC requirements	Continue to implement ICMC requirements Develop mine closure plans	Continue to implement ICMC requirements Develop POX tailings management system Mine closure plans approved by authorities	Implement POX tailings management system
Pioneer	Achieved ISO 14001 accreditation Implemented ICMC requirements	Continue to implement ICMC requirements	Continue to implement ICMC requirements	Develop flotation tailings management system
Malomir	Achieved ISO 14001 accreditation Implemented ICMC requirements	Continue to implement ICMC requirements Develop flotation tailings management system	Continue to implement ICMC requirements Implement flotation tailings management system	Develop mine closure plans
Albyn	Achieved ISO 14001 accreditation Implemented Environmental Management System ("EMS")	Continue to implement ICMC requirements	Continue to implement ICMC requirements	Develop mine closure plans

Corporate Reporting

	2012 Achievements	2013 Strategic Objectives and Priority Areas	2014 Strategic Objectives and Priority Areas	2015 Strategic Objectives and Priority Areas
Corporate reporting	Integrated sustainability reporting with financial reporting	Continue to integrate sustainability reporting with financial reporting	Continue to integrate sustainability reporting with financial reporting	Continue to integrate sustainability reporting with financial reporting

Action Plan excludes IRC, as it has separate HSE Management Systems. See www.ircgroup.com.hk/html/hse_health for details.

Sustainability Management and Governance

The Company's Board of Directors, Executive Committee and key operational management underpin the Company's strategic objective to continue to develop the Group sustainably and responsibly and operate in line with the Group's values and commitments.

Governance
The Board is committed to high standards of corporate governance, believing this to be fundamental to the success of the Company.

The Board of Directors and HSE Committee
The Board has overall responsibility for the system of internal control and risk management, including health, safety and environmental ("HSE") risks. To assist with this task, the Board appointed a HSE Committee at Board level to advise and report to the Board on sustainability matters, including: establishing and reviewing the Group's health, safety, environmental and community relations 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 HSE Committee meets regularly and operates to formal Terms of Reference, which may be found on the Company's website, www.petropavlovsk.net.

The Executive Committee
The Board has appointed an Executive Committee, consisting of both Executive Directors and key operational management, and has delegated to this Committee the responsibility for overseeing the implementation of the Group's strategy, business targets and the decisions made at Board level, including decisions made by the HSE Committee. The Executive Committee is also responsible for reviewing internal control and risk management, including identified HSE risks. The Executive Committee meets regularly and operates to a formal set of Terms of Reference, which may be found on the Company's website, www.petropavlovsk.net.

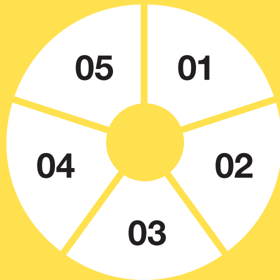
Managing and monitoring HSE performance
The Group is committed to a rigorous approach to HSE issues and robust HSE management systems and accident or incident reporting procedures are in place. All accidents or incidents are recorded. HSE performance data is submitted to the Executive Committee as a part of the Group's monthly operational report. HSE performance data is then further scrutinised by the HSE Committee and by the Board. All serious accidents and incidents are investigated.

Managing risk
The Group recognises that certain risks may pose a threat to its strategy and its sustainable values and commitments. The Board and its appointed Risk Committee have responsibility for on-going risk review and management, within a formal risk management framework. HSE risks have been assigned their own category within this framework in line with the importance the Group places on HSE matters. Human Resources risks, risks associated with the recruitment and on-going management of people, are also assigned their own category.

Directors' remuneration
The Board has appointed a Remuneration Committee consisting solely of Non-Executive Directors to review the performance of the Executive Directors and senior executives to determine their remuneration and conditions of employment, paying due regard to the interests of shareholders and the performance of the Group, including HSE performance.

The Department of Industrial Safety and Auditing
The Department of Industrial Safety and Auditing (the "Department of ISA") was created within Management Company Petropavlovsk, the Group's centralised operating company, to ensure that HSE measures, including occupational health and safety and environmental monitoring and permitting, are integrated across all of the Group's operations and managed in accordance with the Group's policies and Russian legislation.

Structure for the monitoring and reporting of Sustainability Performance data



01 HSE Performance data is collected by key operational management

02 Data and summary reports are submitted to the CEO and Deputy CEO

03 Data and summary reports are submitted by the Deputy CEO to the Executive Committee and the HSE Committee

04 A summary is made to the Board of Directors

05 Any recommendations are given to key operational management, which in turn is able to provide the Board with feedback

The Group holds an annual conference on occupational health and safety ("OH&S") and environmental protection, attended by key operational management. The aim of the conference is to encourage the open discussion of HSE issues, set targets for the year ahead and build on the accident-reduction methods taken during the previous year.

IRC
IRC has separate HSE management systems, details of which are included in IRC's 2012 Annual Report and on its website, www.ircgroup.com.hk/html/hse_health. As such, data included within this report excludes IRC.

Go to page 86 for the Corporate Governance Report
See page 66 for the Report of the Risk Committee
See page 94 for the Directors' Remuneration Report

Log on to www.petropavlovsk.net to view Committee Terms of Reference

Health and Safety

The Group is committed to providing a safe working environment for all its employees, minimising the risk of accidents and occupational illnesses and aiming for zero fatalities.

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

The Group operates a zero tolerance policy towards alcohol at its sites.

Compliance with labour laws

The Group is committed to full compliance with Russian labour legislation, of which the most significant is the Labour Code of the Russian Federation. In line with the Russian Labour Code, a review of labour protection in the workplace is conducted regularly.

Other rules, standards and regulations include:

- State labour safety system standards;
- State sanitary-epidemiological rules and standards;
- Integrated safety rules;
- Rules of installation and safe operation; and
- Labour protection regulations.

The Group is committed to keeping up to date with any additional legislative developments, aiming to incorporate such recommendations into the Group's health and safety standards.

There were no legal prosecutions as a result of OH&S violations in 2012 (2011: zero).

Audits and inspections

Government HSE auditors make regular visits to the Group's operations and conduct rigorous safety inspections. HSE audits from external independent bodies are conducted on an ad hoc basis.

The Group conducts regular internal health and safety audits. Information regarding any safety violations is communicated to employees, line managers and mine management, referencing the danger posed and the relevant Russian legislation or Group's health and safety policy. Where appropriate, follow up meetings are conducted with management of the individual entities inspected. As a last resort, the Group has the authority to fine or discipline individuals, including line managers, for any safety breaches.

Company standards

The Department for Occupational Health and Safety issues Group standards, covering matters such as compliance with labour laws, fire prevention and safety, the handling of hazardous chemicals and working with electrical appliances. These are regularly updated in line with Russian legislation and/or internal recommendations, for example, following a particular incident or internal safety audit.

Training

The Group is committed to providing high-quality, task-specific training. All of the Group's employees are suitably qualified for the tasks that they conduct.

Provision of Personal Protective Equipment ("PPE")

All staff are provided with task-specific PPE. Failure to wear the appropriate PPE is a disciplinary offence, which may result in the employee or their line manager receiving a fine, warning, or dismissal.

POX Hub

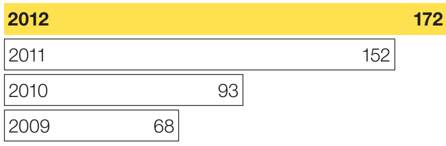
The POX Hub will be commissioned and operated in line with mining industry standards, which outline the specific requirements for the safe operation and training of staff in potentially hazardous production facilities. The Department of OH&S is currently developing technical protocols relating to the safe installation and operation of the POX equipment. Prior to commissioning, all equipment will be tested to reconfirm it is safe to use. Equipment will be certified by the State authorities in order confirm its safe usage in line with Russian standards and regulations. Operatives will be required to undergo specific training on the safe operation of equipment and will be examined in-house. In addition, senior technical staff will be certified by the State.

The financing of measures aimed at improving industrial safety

In 2012, 172.3 million Roubles were spent on initiatives aimed at improving industrial safety. This was a 13% increase on the amount spent in 2011 (151.7 million Roubles), reflecting the expansion of the Group. The majority of funds were spent on the provision of new or upgraded PPE, conducting periodic medical examinations of employees, the certification of workplaces and on OH&S training.

Funds spent on OH&S initiatives

(millions of Roubles)



Accidents in 2012

As at 31 December 2012, the Group had recorded 47 lost time accidents. Of the 47 accidents, only one was considered major. In comparison, in 2011 there were 29 lost time accidents, of which 28 were minor and one was major. There were zero on-site fatalities in 2012 (2011: zero). This resulted in a Lost Time Injury Frequency Rate ("LTIFR") for 2012 of 2.37 accidents per one million man hours worked. This was a slight increase on 2011, when the LTIFR was 2.0.

Of the 47 persons injured during the year:

- 20 were involved in machinery-related accidents;
- 14 slipped in winter conditions or fell when mounting/dismounting machinery;
- Eight were injured in traffic related accidents;
- Three were struck by hand tools; and
- Two were injured in accidents involving the electrical power supply.

The serious accident related to an employee who sustained multiple injuries when the company vehicle he was driving overturned. Following this incident, the Group conducted a detailed investigation. The outcome of this investigation was that the accident was the result of a momentary loss of concentration, rather than the failure of OH&S procedures.

During the second half of the year, the Group conducted extra refresher training and internal HSE inspections. This is thought to have contributed to the decrease in accidents during the second half of the year.

Health and safety performance indicators 2009–2012

	2012	2011	2010	2009	Additional comments
Number of hours worked	19,825,609	15,581,200	13,214,226	11,309,911	Number increased in line with the Group's expansion
Number of man days	1,973,709	1,537,028	1,335,922	1,134,311	Number increased in line with the Group's expansion
Number of occupational diseases	0	0	0	0	
Total Recordable Diseases ("TRD")	5,247	4,611	4,599	4,113	Includes any medical condition (e.g. virus) which has resulted in an absence from work. Number increased in line with increased numbers of staff
Number of hours lost as result of TRD	583,729	556,316	493,237	434,986	
Total Recordable Diseases Frequency Rate ("TRDFR"), per million man hours worked	264.7	295.9	348,0	363,7	Category refers to "sick days" rather than occupational diseases
Lost Time Injury ("LTI")	47	29	41	41	The number of accidents or incidents which resulted in employee absenteeism
Number of Fatalities	0	0	3	1	Number of fatalities continued to be zero in 2012 thanks to the extra measures taken following the regrettable three fatalities in 2010
Number of hours lost as result of LTI	6,604	4,765	6,031	6,289	
Lost Time Injury Frequency Rate ("LTIFR"), per million man hours worked	2.37	1.86	3.1	3.63	
Violations of internal safety procedures	66	63	94	712	Number remained flat compared to 2011 but down vs. 2010, due to measures introduced in 2011 to improve the safety culture on-site
Fines issued as a result of violations of internal safety procedures (number)	10	5	15	132	Number of fines remained down compared to 2009, in line with increased on-site safety training
Fines issued as a result of violations of internal safety procedures (Roubles)	196,000	73,000	26,000	58,910	Increased in line with the number of fines issued
Legal prosecution for safety rules violations	0	0	0	0	The Group is compliant with Russian Federation legislation
Health and safety education	3,672	3,550	2,755	1,868	The amount increased following Group expansion and the roll out of new OH&S procedures

Figures exclude IRC, which has separate HSE management systems. See www.ircgroup.com.hk/html/hse_health for details.

During the year, two accidents occurred involving electro-gas welders. Goggles are made available for welders; however they are usually removed when they are not welding to prevent restricted vision. Although the wearing of goggles is not mandatory under Russian legislation, following these accidents the Group took measures to make available dual purpose goggles, which protect an individual's eyes and allow them to undertake other non-welding work without restricting their vision. It is hoped this will prevent similar accidents occurring in the future.

Going forward

The Group is continuing to target a low LTIFR and zero fatalities for 2013.

New standards and additional training will be implemented ahead of the commissioning of the Group's POX Hub in Q1 2014.

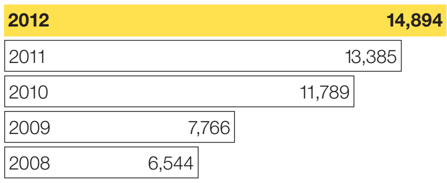
Managing our Workforce

Petropavlovsk recognises that its employees have been instrumental in its success to date and that its future success is dependent on attracting and retaining a motivated workforce that will uphold the Group's values and deliver its strategy. Since inception, the Group has strived to be an employer of choice, attracting and retaining employees by offering competitive remuneration, high-quality equipment and training, good living conditions and opportunities for career development. The Group is proud to employ industry-leading experts from across the Russian mining industry. As a predominantly Russian company, almost all the Group's employees are Russian nationals, including operational management and the majority of the Executive Directors.

Working hours
In line with Russian legislation, all employees across the Group are issued with contracts stipulating their working hours, paid annual leave allowances and other employee guarantees.

Staff at the Group's mines work according to a shift pattern. The Group's mines are located in remote regions, some distance from large towns, so it would not be practical for employees to commute to work daily. Instead, employees work on-site for either a fortnight or a month, staying in purpose-built accommodation blocks equipped with recreational facilities and modern conveniences. Employees are then given the same time off site, once their shift is complete. This shift pattern has the added benefits of enabling employees to maintain their family commitments and ensures that the mines are able to operate throughout the year.

Average number of employees
During 2012, the average number of employees rose to 14,894 (2011: 13,385) reflecting the intensification of the Group's activities. Of this figure, 2,229 were employed by IRC (2011: 2,226). See graph below.



See page 138 of the Financial Statements for a breakdown of the 2012 average number of employees.

Equal opportunities
The Group is committed to providing equal opportunities and equal pay for individuals in all aspects of employment, regardless of their gender or background. This approach is also a legal requirement under UK and Russian law. Women have the opportunity to reach the highest levels of senior management and Board positions. As at 31 December 2012, women on the Board and the Executive Committee comprised 11% and 20% respectively.

The Group's training college, The Pokrovskiy Mining College, does not discriminate against gender when recruiting new students. The College has run recruitment drives aimed at women, encouraging them to consider careers in traditionally "male" professions, such as operators of heavy machinery.

Employee communications
The Group recognises that an open and transparent dialogue between employees and management is vital to ensure employees are motivated and kept well informed on the business.

To provide a balanced forum to air any grievances or discuss any pressing issues, an independent trade union was set up in 2003. Elected by employees every four years, the trade union committee handles a wide range of issues and seeks to improve employees' wellbeing on and off site.

In addition, all staff have the opportunity to raise any concerns anonymously with senior management through a "telephone hotline".

Since 2006, the Group has circulated a free monthly newsletter, complemented by the launch of a corporate magazine in 2010. The content of these publications includes corporate and operational updates, interviews with management and employees and relevant regional news.

The Group undertakes a range of internal conferences and seminars each year on specific disciplines to promote the sharing of information and experiences between colleagues in order for them to learn from one another.

Dealing with bribery and corruption
The Company has a zero tolerance approach to bribery and corruption.

Recruitment and Training

The Group recognises that one of the challenges faced by the global gold mining industry is a shortage of trained workers with the requisite specific skills. As it expands and develops, the Group will need to employ personnel who will have the necessary skills and qualifications to enable the Group to fulfil its mission.

In order to mitigate the human resources risk of a lack of skilled personnel, the Group has adopted a programme of investment in educational projects and institutions in the regions in which it operates. In turn, this provides local people with career opportunities and improved prospects in regions with historically high levels of unemployment.

Career development opportunities
The Group remains committed to providing current and potential employees with career development opportunities.

In line with this commitment, in 2012, 34 students received sponsorship or bursaries from the Group in order to train at higher education institutions. Of this figure, 28 are currently employed by the Group, improving their skills in their chosen field. The number of students receiving Group sponsorship fluctuates year-on-year depending not only on the needs of the Group, but also on individuals' needs: for example, whether they feel they have completed training and personal development.

Training ahead of POX commissioning
The Group has a policy in place to select and train future line managers and operators for the POX Hub in-house.

In-house training is conducted at the Group's pilot test plant, at the Pokrovskiy Mining College and at the Group's dedicated research centre, Gidrometallurgiya. Training involves a mixture of theoretical classes and seminars and is conducted under the supervision of the Group's own industry experts, including Evgeniy Kudrin, Technical Director of the Pokrovskiy POX Plant and Professor Yakov Schneerson, Director of Gidrometallurgiya R&D Centre. Mr Kudrin has first-hand managerial experience of running a POX plant due to his previous role as Deputy Director for Production and Operations at the Nadezhdinskiy plant in Norilsk, which uses a similar technology for extracting nickel. Professor Yakov Schneerson is one of the world's leading specialists in autoclave technology who has published more than 300 scientific papers and books and previously worked extensively on the commissioning and operation of the Nadezhdinskiy plant in Norilsk.

Additional tutorials are supplied by specialists from the Group's partners, Outotec, and equipment suppliers.

The Pokrovskiy Mining College
The Pokrovskiy Mining College (the "College") is a residential and day-college situated close to the Pokrovskiy mine. The College was established by the Group in 2007 with the aim of providing specialist training for future Group employees. The College aims to provide employment to graduates and, therefore, it is of considerable benefit, not only to the Group, but also to the economy of the Amur region. In accordance with its licence, the College is certified to offer training in more than 40 mining professions.

Each course is tailored in consultation with Group management to ensure that it is directly suited to the Group's human resources needs and the industry trends. In line with this, the College's syllabus has been adapted for training personnel ahead of the commissioning of the POX Hub.

The Group has worked with the College to develop a dedicated course designed to train future POX plant operatives. The course covers an extensive range of topics including both general information regarding gold ores and methods of their treatment, as well as specific topics relating to the POX Hub, such as the technological parameters and operating procedures of the autoclaves and oxygen plant, safety procedures and environmental management systems.

The majority of students are native to the Amur region and most are aged between 18 and 24. However, the College does also take on mature students wishing to retrain or update their current level of knowledge in their chosen career and does not discriminate against age or gender. The training structure is defined by two major factors: a public contract from the Ministry of Education and Science of the Amur Region and enterprises of the Group.

In 2012, 2,121 students were enrolled in the College, 723 graduated in 2012 totalling approximately 1,800 graduates over five years. Upon successful completion of training, 99% of the College's graduates are employed directly by Petropavlovsk. The majority of the former students continue their career working at Pokrovskiy, Malomir and Albyn.

Elena Kiparisova
Caterpillar truck driver, Pioneer

"I started my career as a cashier at Zeya railway station. The salary was small. One day, I saw an advertisement on TV for the Pokrovskiy Mining College. The advert was particularly aimed at women, encouraging them to become heavy truck drivers. The advert stated that subsequent employment, with a competitive salary, could then be found at one of Petropavlovsk's mines. My mind was immediately made up to enrol! As I could drive a car already, I thought that I would be able to manage to drive a truck as well."

Environmental Management

Effective environmental management has always been a priority for the Group. The Group is committed to upholding the highest environmental standards, as required by Russian legislation, and operating in line with accepted international best practice.

Russian environmental legislation
The Group considers aiming for full compliance with stringent Russian environmental legislation to be a key component of its approach to environmental management.

In accordance with Russian legislation, a mining company operating in Russia is required to obtain licences and permits from the Russian authorities in order to conduct mining or exploration activities. These licences and permits may include certain limits and conditions aimed at safeguarding the environment, protecting local wildlife and avoiding the infiltration of harmful chemicals into soil, air, or groundwater.

In line with Russian legislation, the Group holds the following permits, certificates and licences:

- Licences and related permits to mine natural resources;
- Licences and related permits to conduct exploration activities;
- Permits relating to the construction of processing plants, roads and other mine infrastructure;
- Certificates of environmental safety in hazardous waste management, including licences for the handling of Class I-IV hazardous waste;
- Permits for regulating the discharges and emissions into the atmosphere, water or soil;
- Certificates of accreditation for the Group's laboratories.

Environmental Impact Assessments
In addition to these regulations, Russian legislation requires an environmental impact assessment report ("OVOS" report) to be drawn up as a part of the initial mining permitting process of a mining project. With regards to the environment, the report evaluates the current state of, and estimated impact of, the planned mining activities on groundwater, rivers and streams, mineral resources, land, soil, air and plant and animal life in the area. Depending on the outcome of the OVOS report, a company may be required to change the design of the proposed mine.

Environmental monitoring
In line with Russian legislation, environmental monitoring is conducted throughout the life of mine, from the exploration stage to decommissioning. The Group is required to conduct extensive environmental monitoring to ascertain any impact its activities may have on groundwater, rivers and streams, soil, air, plant and animal life. Monitoring data is collected in accordance with the schedules approved by the local state authorities and samples are analysed in Group laboratories, which are state-accredited.

External audits
The Group is audited by the Russian authorities to ensure compliance. These audits have also been supplemented by external audits and assurance from internationally-recognised and approved consultancies, including minerals experts Wardell Armstrong International in 2012 and 2011 and cyanide experts Golder Associates in 2009.

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

In line with this commitment, during H2 2012 the Pokrovskiy, Pioneer, Malomir and Albyn mines all received accreditation of compliance with the environmental management system GOST R ISO 14001–2007 (ISO 14001:2004).

Protecting biodiversity
The Group strives to be fully compliant with a number of Russian laws and environmental requirements designed to limit the impact of industrial activities on local wildlife, habitats and fauna.

The Group uses monitoring data to assess the impact of its activities on plant life and wildlife, particularly wildlife in local rivers and streams. Road reflectors and warning signs are installed on roads and the safe and responsible disposal of waste, including food waste, is monitored and controlled. Fishing, hunting or poaching, the driving of vehicles outside designated areas and the flooding of forest land is forbidden. Land may only be cleared within the limits of the obtained licences and permits. The building of stockpiles and mining dumps is regulated. In line with the requirements of ICMC, bird scaring devices are installed on the tailings dams at all the Group's mines.

Avoiding forest fires
Large parts of the Amur region are wooded and thus forest fires could quickly spread if not managed adequately, with potentially devastating effects on wildlife and local communities. In response to this, the Group conducts regular fire safety briefings. All sites are equipped with a fire engine and trained fire fighters. Mine managers are responsible for regular monitoring to ensure compliance. Appropriate fire response procedures are in place and fire drills are run regularly. Oil and fuel is appropriately stored to prevent leakages and spillages and to diminish the risk of fire.

	2012	2011	2010
Licence violations	0	0	0
Environmental fines (number)	0	0	2
Environmental fines (Roubles)	0	0	7,000

Figures exclude IRC, which has separate HSE management systems.

	2012	2011	2010
Category 1 – minor	232	195	93
Category 2 – considerable	0	0	0
Category 3 – serious	0	0	0

Figures exclude IRC, which has separate HSE management systems.

Rehabilitation

To date, the Group has not decommissioned any mines. However, it is the Group's intention to ensure that after decommissioning, the landscape will be restored as far as possible to its original state. All operating mines are subject to an on-going rehabilitation programme which is compliant with regulatory requirements. Closure plans are prepared as a part of the initial permitting process and these are updated as required.

Water consumption

In accordance with Russian legislation, all Group operations hold licences setting water usage quotas and where water may and may not be obtained from. Pit water is purified before it is discharged. The Group's RIP plants run using recycled water, reducing the amount of water extracted from local sources.

Waste management

In compliance with Russian legislation, a waste management programme is agreed with regulatory authorities and implemented at all Group operations. The programme outlines waste disposal standards and stipulates limitations on waste produced, detoxified or disposed of. Data on waste is collected and logged in registers. This data forms part of the overall monitoring information, which is supplied to local authorities annually for their review.

Preventing atmospheric pollution

The Group uses purification systems, anti-dust equipment and other protective facilities to prevent the discharge of harmful substances into the atmosphere. All emission points, such as laboratories, crushing sites, boiler houses, and smelters are equipped with gas purifying equipment, which is monitored on a regular basis. Air quality monitoring, including the monitoring of carbon monoxide levels and dust emissions, is carried out in accordance with mining and environmental monitoring programmes agreed in advance with federal environmental authorities.

Go to pages 28 and 29 for more on the POX Hub

Greenhouse gas ("GHG") emissions

The Group currently monitors and reports GHG emissions to the Russian authorities on a regular basis as tonnes of emissions emitted. The GHG monitored and reported include carbon dioxide, nitrous oxide and some hydrocarbons. The Group is currently aligning its current reporting procedures with UK legislation on carbon reporting, which is expected to come into force later this year. The Group anticipates that GHG emissions will be reported in line with this legislation in the 2013 Annual Report.

Climate change

The Group recognises the importance of addressing climate change and is aspiring to review the risk climate change poses to its operations.

Environmental performance in 2012

In 2012, the Group operated in accordance with its licence conditions. See table opposite.

During 2012, all the Group's hard-rock mines received accreditation of compliance with the environmental management system GOST R ISO 14001–2007 (ISO 14001:2004).

The Group has adopted a grading system for environmental incidents, based on their real or potential impact. Category 1 incidents are classified as temporary lapses in normal environmental procedures, which, once identified, may be remedied with no detrimental impact on the environment. There has been a steady increase in such incidents since 2010. This is attributed to the significant expansion of the Group over this timeframe. See table opposite.

Cyanide management

Gold is currently extracted at Petropavlovsk's four hard-rock mines using conventional cyanide-based processes.

The handling of cyanide is carried out in line with strict security requirements. Cyanide is stored in locked, guarded warehouses with concrete floors. Access is limited to fully-qualified personnel and security procedures are reviewed on a monthly basis. Only authorised personnel are allowed to transport cyanide and all transportation is logged. Tailings dams are designed to be water tight and are monitored on a regular basis.

Were cyanide procedures to fail, the Group has in place medical and environmental emergency response plans. Processing plants are fitted with sensors which monitor the presence of cyanide compounds. If high concentrations are detected, supply-and-exhaust ventilation will automatically be turned on. The Group conducts emergency response drills.

Petropavlovsk is aligning its use of cyanide with the International Cyanide Management Code ("ICMC"). As part of this commitment, in 2009, Petropavlovsk appointed an independent external consultant, Golder Associates, to conduct a gap analysis audit of the Group's cyanide usage and management systems against ICMC. The report concluded that Petropavlovsk's cyanide management systems are comprehensive and compliant with Russian regulations. However, Golder Associates did recommend a number of relatively minor changes to bring operations in line with the ICMC requirements. An HSE audit conducted in 2011 by Wardell Armstrong International noted that the improvements recommended by Golder Associates were being implemented and concluded that cyanide is well managed by the Group.

POX technology

Arsenic, which is normally present in refractory ores and concentrates in the form of arsenopyrite ($FeAsS$), is a hazardous waste component, which requires special anti-contamination measures to ensure safe disposal. Disposal of arsenic waste products is strictly regulated by both Russian and international environmental legislation.

The POX process converts the majority of arsenopyrite into scorodite ($FeAsO_4 \cdot 2H_2O$), which is insoluble in water, hence it is the safest form of arsenic for disposal. In contrast, the BIOX® process produces tailings with a higher concentration of water-soluble mobile arsenic, which is more hazardous, even after the additional treatment required before it can be disposed of into a tailings dam.

Community Engagement and Charitable Foundation

The Group is committed to promoting the social and economic development of the Amur region and improving the quality of life of the local community. This is achieved through widening the scope of the Group's operations and assisted by the Petropavlovsk Foundation for Social Investment ("The Foundation").

Direct contribution to the local economy
The Group remains one of the largest employers in the Amur region. The Group's investment in education and training provides further job opportunities and helps to stimulate the local economy.

The Group is a major tax payer in the Amur region.

The Group uses local enterprises as suppliers wherever practically and economically possible.

Community consultations
Maintaining good relationships with local communities and the local authorities is a key priority for Petropavlovsk. The Group is committed to ensuring that local communities are actively involved in its development plans and that concerns are adequately addressed in public consultations.

Russian legislation requires an environmental impact assessment report ("OVOS" report) to be drawn up as a part of the initial permit process of a mining project. The report considers the social, economic, demographic, health, architectural, environmental and climatic impact of the proposed mine. As part of this process, public opinion is considered. A mining company is required to present to the public with detailed information on the proposed activities and development of the project and the design of production facilities and the layout of the mine (including any roads to be laid) and outline all the potential impacts of the project on the environment, local economy and local community. Depending on the outcome of the OVOS report, the design of the proposed mine may change.

Welfare and community liaison
The Head of Welfare and Community Liaison works to maintain an on-going dialogue between Petropavlovsk and local communities, the media, local government, non-governmental organisations and non-governmental organisations ("NGOs"). In addition, she facilitates the communication between mine management and staff at Group operations, holding talks with employees and working closely with the trade union. She also oversees the publication of the Group's internal newspaper.

The Petropavlovsk Foundation for Social Investment
The Foundation was established in 2010, streaming the Group's charity work through one investment vehicle. Since its launch, the Foundation has donated approximately 173 million Roubles to local causes in and around the Amur region.

The Foundation aims to contribute, encourage and stimulate the sustainable socio-economic and cultural development of the areas in which the Group operates in the Russian Far East. It is hoped that this will not only improve the quality of life for local inhabitants, but also encourage investment into the region and ensure the Russian Far East is an attractive place to live and work. The Foundation works closely with regional and federal governmental authorities, local business, NGOs, local communities and local community organisations.

The Foundation's investment activities are grouped under six priority areas: education, child development, culture, sport, quality of life and programmes aimed at encouraging socio-economic development in the Russian Far East through investment in local R&D institutions.

The Foundation both initiates its own projects and allocates funds on a request basis, once claims have been fully investigated by the Foundation's commissioners and due diligence has been conducted. Peter Hambro (Chairman) and Sergey Ermolenko (CEO) are members of the Foundation's Board of Trustees.

During 2012, the work of the Foundation was acknowledged by the Ministry of the Economic Development of the Russian Federation. The Foundation was nominated for a prize for the "Best programme facilitating development of local communities and improving the social climate in the region of the Company activities".

Funds spent in 2012
In 2012, the Foundation invested 59.9 million Roubles into its six priority areas: child development, education, culture, quality of life, sport and programmes aimed at encouraging socio-economic development in the Russian Far East.

The amount invested in 2012 (59.9 million Roubles) was lower than the amount invested in 2011 (90.6 million Roubles) due to a reduction in costs brought on by improved efficiencies and a rollover of 2011 projects, which saw a reduction in start-up costs. The Foundation's expenditure in 2012 was greater than in 2010 as the Foundation was not operating for the full year in 2010. Conversely, the Foundation was allocated a higher budget in 2011, reflecting the need to take into account start-up costs.

Education
The Foundation's educational programmes are aimed at supporting further and higher education institutions in the Russian Far East, enhancing opportunities for students' personal and professional growth and providing financial support to students in need.

Priority area	Funds spent in 2012 (million Roubles)	Funds spent in 2011 (million Roubles)	Funds spent in 2010 (million Roubles)
Education	1.9	5.7	0.5
Child development	7.1	6.4	2.0
Culture	26.0	25.9	15.0
Sport	3.6	16.2	1.0
Enhancing the quality of life	19.7	27.9	1.6
Development initiatives	2.0	8.5	3.0
Total	59.9	90.6	23.1

Figures have been rounded. Table excludes some maintenance costs.

During 2012, the Foundation spent 1.9 million Roubles on its educational projects. This was less than funds spent in 2011 (5.7 million Roubles) but considerably more than funds spent in 2010 (0.5 million Roubles), reflecting the decrease in start-up costs and improved efficiencies. For example, the renovation of nurseries was conducted simultaneously across an area, which helped to reduce the transportation cost of materials.

During 2012, the Foundation continued to provide student grants. In addition, funds were spent on teacher training programmes.

Child development
The Foundation's child development programmes are aimed at improving the quality of life of children in the Russian Far East, with a particular focus on children from underprivileged backgrounds or with difficult medical conditions.

During 2012, the Foundation spent 7.1 million Roubles, an increase on the funds spent in 2011 (6.4 million Roubles).

2012 programmes included investment in local nursery schools. Ten children received financial support, which enabled them to access specialist medical treatment and medicines.

Culture
The aim of the Foundation's cultural programmes is to promote cultural activities and develop cultural awareness in the Russian Far East.

In 2012, the Foundation spent 26 million Roubles (2011: 25.9 million Roubles) on supporting cultural programmes and sponsoring cultural events.

2012 cultural programmes included renovating local cultural establishments, with a particular emphasis on the Selemzhinskiy area of the Amur region, which is home to the Malomir and Albyn mines. As in 2011, the Foundation continued to provide financial support to the excavation of the Albazino fortress, an area of local historical significance, collaborating with specialists from across Russia and abroad.

During 2012, the Foundation continued to provide financial support to programmes aimed at supporting, promoting and preserving the traditions and culture of a local indigenous population, the Evenks. Working in collaboration with the Evenk Community Council, during 2012 the Foundation ran programmes promoting the revival of traditional Evenk arts, renovating local cultural establishments and providing financial support to libraries.

Sport
The aim of the Foundation's investment in sport is twofold: the Foundation aims to support initiatives and institutions which promote health and fitness. In addition, the Foundation aims to strengthen and develop local professional sport, in order to promote both a general healthy lifestyle and the Amur region as a place to live, work and do business in.

During 2012, the Foundation spent 3.6 million Roubles on the reconstruction of sports facilities and stadiums, providing financial support and sponsorship to athletes, sports clubs and teams, and sponsoring sports and fitness tournaments and programmes for both amateurs and professional athletes. Funds invested in sport in 2012 were less than in 2011 (16.2 million Roubles), reflecting improved efficiencies and the decrease in start-up costs.

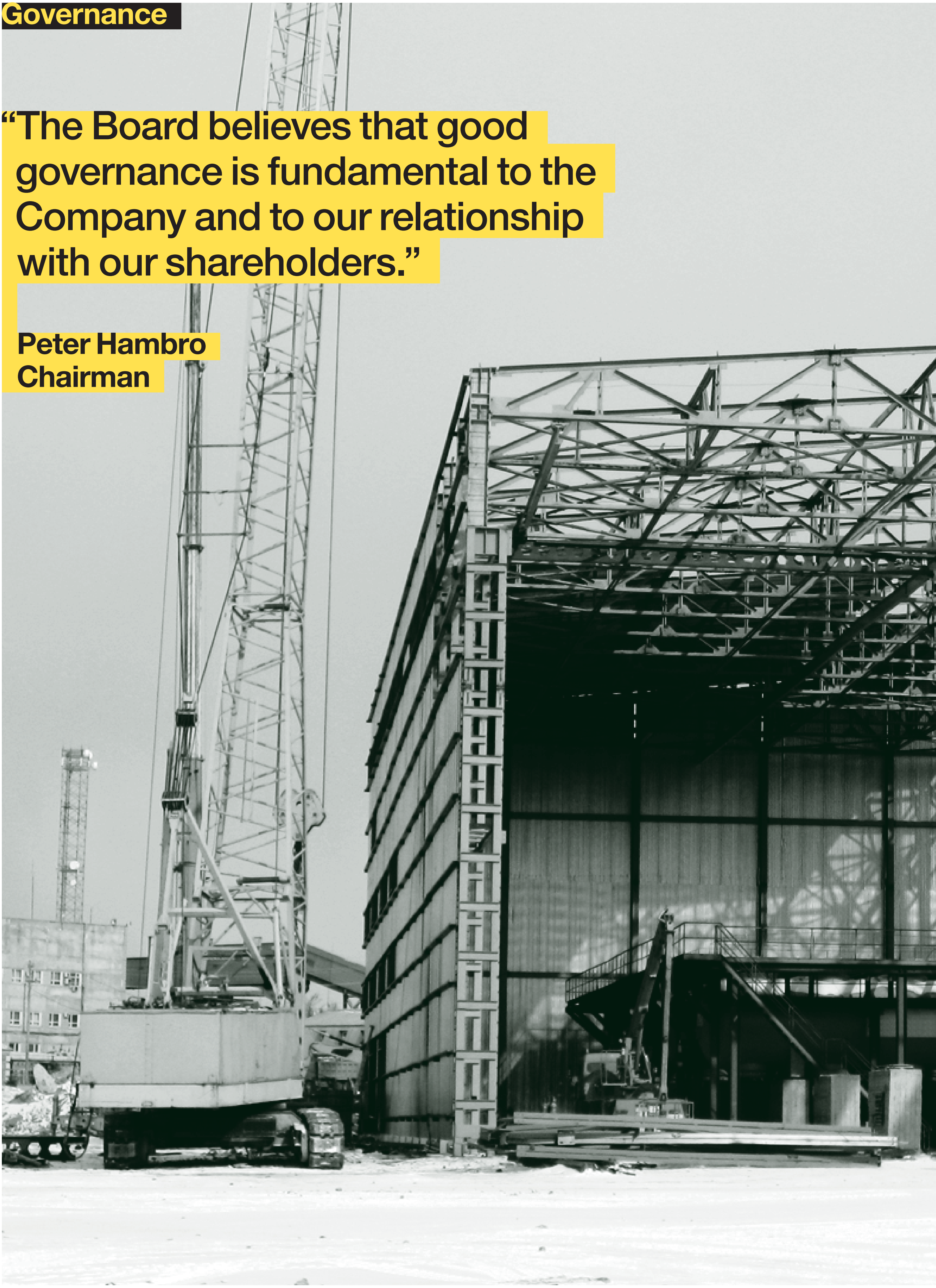
Enhancing the quality of Life
The Foundation aims to directly improve the quality of life for some of the most disadvantaged groups of people in the Amur region. In order to facilitate this, the Foundation works closely with municipal and local authorities. Programmes under this investment area aim to strengthen healthcare and other services, provide housing and improve the quality of existing housing. The Foundation also works on local environmental projects and provides financial aid to particular individuals who are considered to be especially in need.

During 2012, the Group spent 19.7 million Roubles on projects aimed at improving the quality of life of local communities in the areas affected by the operations of the Group. This was less than in 2011, reflecting the decrease in start-up costs and improved efficiencies.

During 2012, funds were allocated to support public healthcare. Working closely with the local authorities, the Foundation provided equipment, training and technical resources and renovated existing medical facilities. Special assistance was provided to the Amur Regional Children's hospital, with the establishment of a new medical surgery. Approximately 50 items of specialised equipment was supplied to a number of rural hospitals and surgeries in the Selemzhinskiy area. Funds were also allocated towards the establishment of a children's dental surgery in Zeya, the first of its kind in the town.

Developing the Russian Far East
The Foundation runs programmes aimed at increasing the economic potential of the Russian Far East by supporting local design teams, research institutions or institutions engaged in activities specific to the Russian Far East.

During 2012, the Foundation spent 2 million Roubles on programmes in this category. This was less than in 2011 (8.5 million Roubles), reflecting the reduction in start-up costs.



"The Board believes that good governance is fundamental to the Company and to our relationship with our shareholders."

Peter Hambro
Chairman

Construction of the autoclave building, part of the POX Hub
The four autoclave vessels have been placed on their foundations and work is now progressing on completing the autoclave building around them.

Report of the Risk Committee

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 operation and scope of the Committee and report on its work over the past year. In addition, this report details the principal risks relating to the Group, how each risk has changed during the year and the actions undertaken to mitigate and manage these risks.

During 2012, Dr Graham Birch, Sir Roderic Lyne, Mr Martin Smith and Dr David Humphreys, were my colleagues on the Committee. Dr Humphreys was appointed to the Committee on 1 January 2012, having attended two meetings of the Committee in 2011 as part of his induction to the Board. There were no changes to the membership of the Committee during the year. Membership 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 to having Non-Executive Directors to 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, Deputy Chief Executive and a member of the Executive Committee acts as a conduit between the Committee and the executive management. Based in Russia, Martin is involved in operational issues on a daily basis and has a clear understanding of the Group's operational risks. His detailed knowledge and understanding of the operational and health and safety issues relating to the Group continue to provide invaluable input to the Committee's deliberations.

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 and the Company Secretary. The Chief Executive Officer, the Chief Financial Officer, the Strategic Director and the Group Head of Legal Affairs also attended (by invitation for all or part of any meeting) to present details of specific risks relating to their areas and to discuss mitigating actions being taken, with appropriate challenge provided by the Committee.

Summary of activities undertaken by the Committee during the year and focus for 2013:

Review and assessment of risks during the year
As detailed in the Audit Committee Report, the Board has ultimate responsibility for setting the Group's risk appetite and the executive team have 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 Board is committed to growing the business further by continuing with the Group's active exploration programme at or near to its existing processing facilities and through the construction and continued development of the POX Hub in order to deliver strong growth. The Committee principally focuses on those risks that could impact on our 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 & Environmental;
- Legal & Regulatory;
- Human Resources;
- Investor Relations & External Communications.

Responsibility for each category is delegated to a "risk owner" within the Executive Committee. 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

Consideration of principal risks is a standing agenda item for Executive Committee meetings, with particular focus on new and emerging risks. At each of its meetings, the Committee will review each risk area and the corresponding risk register and will discuss any issues of concern with the relevant "risk owner" who are periodically invited to attend Committee meetings. The Committee will probe and test 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.

Details of the Group's Principal Risks are detailed in the table from page 68 to 77.

2012 Principal risks report

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 in the table from pages 68 to 77. 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.

The risks set out in the table from page 68 to 77, 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.

Categorisation of risks and risk owners

1

Operational
Factors which impact output such as inadequate or failed internal processes, systems or people or external events

Deputy Chief Executive

2

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

Chief Financial Officer

3

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

4

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

5

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

Chief Executive Officer

6

Investor Relations and External Communications
Includes risks such as poor management of market expectations and false investor perception

Group Head of External Communications

Report of the Risk Committee
continued

1 Operational risks

Risk	Description and potential impact	Mitigation
Failure to complete various capital investment projects, including the execution of the commissioning of the Pressure Oxidation ("POX") Hub. **The Group is turning its Pokrovskiy mine into a regional "hub" which will use POX technology to extract gold from refractory ores, which constitute approximately half of the Group's current gold Reserves. The POX Hub is due to be commissioned in Q1 2014. Although this is proven technology, it is new to the Group.** **Additional information** Further information on the work conducted during 2012 and the remainder of the installation in 2013, prior to commissioning in Q1 2014 is detailed on pages 28 and 29. **Change in risk before mitigation**	There can be no certainty that the POX Hub can be delivered without any problems which could involve capital expenditure overruns and/or delays to its commissioning. Any delay in the commissioning of the POX Hub, or inefficiency in the operation or the plant, may have a potential impact on the Group's gold production in 2014 and the cost of production and hence the profitability of the Group. Failure to deliver the POX Hub on budget may adversely affect the Group's financial results, cash flow position and increase capital costs.	The design of the POX Hub was undertaken in conjunction with Outotec, a leading global provider of metals and minerals processing solutions. The Group retained leading global manufacturers for key items of equipment for the POX plant. The Group has conducted test work on the materials used, design parameters and operating scenarios at its specialist R&D centres and the pilot POX plant. All of the major equipment has now been delivered to the site and the installation is well underway and is on schedule. The Group is intending to deploy leading external providers to install and test components. Bulk construction work is being conducted by the Group's specialist mine construction subsidiary, Kapstroi, which has extensive experience in delivering the Group's other mining projects to schedule. The POX Hub will incorporate the existing facilities at the Pokrovskiy mine, reducing the amount of construction work to be undertaken. During the commissioning phase, the Group can draw on its experience in commissioning the pilot POX plant. Outotec will supervise and advise during the commissioning stage of the POX Hub. The pilot POX plant runs on a similar system to the future POX Hub and is being used for staff training under the supervision of the Group's POX specialists and Outotec. In addition, c.90% of new JORC resources added in 2012 are non-refractory and are located at the Group's operational mines, and hence, are potentially suitable for processing in existing on-site resin-in-pulp plants or at the Group's heap-leach facilities and will therefore require minimum spend to develop them. **Change in risk after mitigation**

The symbols indicate how the Company considers that these risks have changed since 2011, both before and after mitigation.

↑ **Increased risk**

→ **No change in risk**

↓ **Decreased risk**

1 Operational risks continued

Risk	Description and potential impact	Mitigation
Delays in supply of, or failure of equipment/services. → **Change in risk before mitigation**	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. 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. → **Change in risk after mitigation**
Factors which impact output, such as weather, equipment failures or lack of supplies. → **Change in risk before mitigation**	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. → **Change in risk after mitigation**

Report of the Risk Committee
continued

2 Financial risks

Risk	Description and potential impact	Mitigation
The Group's results of operations may be affected by changes in gold and/or iron ore prices. **Additional information** Chief Financial Officer's Statement on page 23. Directors' Report on page 80. **Change in risk before mitigation**	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 Executive Committee monitors the position on a regular basis and consults with the Board as appropriate. In February 2013, the Group entered into financing contracts to sell a total of 399,000oz of gold over a period of 14 months ending in March 2014, at an average price of US$1,663/oz. These financing arrangements have increased the certainty of a significant proportion of the Group's cash flow whilst the Group continues its capital investment in POX and the further development of the Group's mining and processing operations at Malomir and Albyn. The Executive Committee will monitor the position going forward and will consult with the Board as appropriate regarding any further hedging arrangements. 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. On 17 January 2013, IRC Limited, the Group's iron ore producing subsidiary, entered into conditional subscription agreements with two new investors for up to approximately US$238 million. Assuming that total completion of the transaction occurs, the Group's interest in the share capital of IRC Limited would be reduced from 63.13% held at 31 December 2012 to 40.43% (see note 35 on page 167). The Group's exposure to the iron ore price would reduce accordingly. **Change in risk after mitigation**
Currency fluctuations may affect the Group. **Additional information** Chief Financial Officer's Statement on pages 17 and 22. **Change in risk before mitigation**	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. The appreciation of the Russian Rouble against the US Dollar tends to result in an increase in the Group's costs relative to its revenues. In addition, a portion of the Group corporate overhead is denominated in Sterling, therefore, adverse currency movements may materially affect the Group's financial condition and results of operations. 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 an optimum amount 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. **Change in risk after mitigation**

2 Financial risks continued

Risk	Description and potential impact	Mitigation
Lack of funding and liquidity to: **– Support its existing operations;** **– Invest in and develop its exploration projects;** **– Extend the life and capacity of its existing mining operations; and** **– Continue development of the POX Hub.** **If the operational performance of the business declines significantly, there is a risk that the Company breaches one or more of the restrictive covenants, as set out in various loan agreements.** ↑ **Change in risk before mitigation**	Adverse events or uncertainties affecting the global financial markets could affect the Group's ability to raise new debt or refinance existing debt facilities in the capital markets. It could also in future lead to higher borrowing costs. The Group needs on-going access to liquidity and funding in order to support its existing operations and invest in new projects and exploration. There is a risk that the Group may be unable to obtain the necessary funds when required or that such funds will be available on unfavourable terms. The Group may, therefore, be unable to develop and/or meet its operational commitments. In addition, the Group's borrowing facilities include a requirement to comply with certain specified covenants, in relation to the level of net debt and interest cover. A breach of these covenants could result in a significant proportion of the Group's borrowings becoming repayable immediately.	The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities and during 2012 the Group executed new banking facilities. The Group reviews cash flow forecasts, debt profiles and funding options on a regular basis and, specifically, in respect of the Going Concern deliberations undertaken by executive management, the Audit Committee and the Board. During 2012 and early 2013, the Group also undertook a detailed working capital exercise for the issue of the Class 1 Circular to shareholders on 18 February 2013 for which Deloitte acted as reporting accountants. The Group maintains its available cash with several reputable major Russian and international banks and does not keep disproportionately large sums on deposit with a single bank. Strong relationships are maintained between the Company and existing and potential equity and debt providers. The Group has adopted a strategy to focus on its core projects, thereby optimising its capital expenditure requirements and deleveraging its balance sheet. During 2012, the Group sold non-core assets for a total cash consideration of US$34.3 million (see note 29). In addition, the Group has also negotiated the investment in IRC Limited (see note 36), which, following full implementation, will have the impact of deconsolidating IRC and its debt. → **Change in risk after mitigation**

2 Financial risks continued

Risk	Description and potential impact	Mitigation
Funding may be demanded from Petropavlovsk under a guarantee in favour of ICBC. **Additional information** Further information on the IRC transaction with General Nice and Minmetals is detailed in the Directors' Report on page 80. **Change in risk before mitigation**	Petropavlovsk has provided a guarantee against a US$340 million loan facility provided to K&S by ICBC to fund the construction of IRC's mining operations at the K&S mine. In the event that K&S 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) IRC presentations to the Petropavlovsk Board (2) attendance of IRC Chairman and CEO at Petropavlovsk Executive Committee meetings and (3) regular communication between the Group CFO and the IRC CFO. On 17 January 2013, Petropavlovsk and General Nice entered into a preliminary agreement, which will be effective until the date of the Second Completion (see below), under which General Nice has agreed to use its best endeavours to assist Petropavlovsk to procure the release of the ICBC bank guarantee. Subject to the issue by IRC of the General Nice Further Subscription Shares and Minmetals Subscription Shares (the "Second Completion") (see note 36), an indemnity entered into by the Company and General Nice on 17 January 2013 will come into effect (the "Indemnity"). Pursuant to the Indemnity, General Nice will, while the Indemnity remains in effect, indemnify the Company in respect of payments made by Petropavlovsk, in respect of the ICBC guarantee or under the terms of a recourse agreement, entered into between the Company, IRC and K&S on 13 December 2010, in proportion to their respective holdings in IRC. In addition, following the Second Completion, General Nice and Minmetals have agreed to use their respective reasonable efforts to assist Petropavlovsk with the removal of the ICBC bank guarantee. **Change in risk after mitigation**

2 Financial risks continued

Risk	Description and potential impact	Mitigation
Exploration for Reserves can be costly and uncertain. **Additional information** Exploration, Reserves & Resources pages 38 to 49. **Change in risk before mitigation**	Exploration activities are speculative and can be unproductive. These activities often require substantial expenditure to: establish Reserves through drilling and metallurgical and other testing, determine appropriate recovery processes to extract gold from the ore and 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 production 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's exploration budget is fixed for each asset at the start of each financial year, depending on confidence in any previously received results. During 2012 the Group focused its exploration programme on areas at, or close to, its operating mines and, in particular, on finding new, non-refractory resources. As a result, the majority of the 1.95Moz JORC Mineral Reserves added (after depletion, figures as at 1 January 2013), are non-refractory and are located at, or close to, the Group's processing plants, requiring minimal capital expenditure to develop them. The Group is using modern geophysical and geochemical exploration and surveying techniques. The Group employs a world class team of geologists with considerable regional expertise and experience. They are supported by a network of fully accredited laboratories capable of performing a range of assay work to high standards. **Change in risk after mitigation**

3 Health, safety and environmental risks

Risk	Description and potential impact	Mitigation
Failures in the Group's health and safety processes and/or breach of Occupational Health & Safety legislation. **Additional information** Please see pages 52 to 63 of the Sustainability section of this Annual Report. **Change in risk before mitigation**	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. Certain 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 2011 in order to minimise the risk of accidents and improve accident response, including additional and enhanced technical measures at all sites, improved first aid response and the provision of further occupational, health and safety training. There were no fatalities during 2012. 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. **Change in risk after mitigation**
The Group's operations require the use of hazardous substances, including cyanide and other reagents. **Additional information** Please see pages 53 and 61 of the Sustainability section. **Change in risk before mitigation**	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 access limited to only qualified personnel, with access closely monitored by security staff. **Change in risk after mitigation**

4 Legal and regulatory risks

Risk	Description and potential impact	Mitigation
The Group requires various licences and permits in order to operate. **Additional information** Please see pages 60 and 61 of the Sustainability section for further information regarding environmental matters relating to licences and permits. **Change in risk before mitigation**	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 operations, reacquiring 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 detailing compliance with the Group's licences and permits. **Change in risk after mitigation**
The Group's Mineral Reserves and Ore Resources are estimates based on a range of assumptions. **Additional information** Exploration, Reserves & Resources pages 38 to 49. **Change in risk before mitigation**	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 quality assurance and quality control procedures. The quality assurance and quality control 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 for the hard-rock assets are prepared in accordance with the guidelines of 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 preparation of the Group estimates follows methodology set out by Wardell Armstrong International, independent experts within the mining industry. The Group also engages the services of independent experts to review the Reserves and Resources statements for operating mines and development projects on a regular basis to provide additional external assurance. In addition, the Company publishes its Reserves and Resources estimates based on gold prices, which are lower than the current market price of gold. **Change in risk after mitigation**

4 Legal and regulatory risks continued

Risk	Description and potential impact	Mitigation
The Group is subject to risks associated with operating in Russia. Change in risk before mitigation	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 (or judicial interpretation thereof) 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 investments law. Fluctuations in the global economy may adversely affect Russia's economy. Russia's economy is 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, 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. Change in risk after mitigation

5 Human resources risk

Risk	Description and potential impact	Mitigation
The Group depends on attracting and retaining key personnel. **Additional information** Corporate Governance Report on pages 86 to 87. Directors' Remuneration Report on pages 94 to 111. **Change in risk before mitigation**	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. 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 agendas of both the Nomination Committee and the Board. Regular reviews of reward structures and incentive plans are carried out in order to attract, retain and incentivise key employees. **Change in risk after mitigation**
Lack of skilled labour. **Additional information** Details of the various educational and developmental programmes are set out in the Sustainability section pages 58 and 59. **Change in risk before mitigation**	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. Additional investment continues to be made in training, particularly with respect to the Pokrovskiy Mining College, and recruitment to improve operational efficiencies. The Group has conducted training at its pilot POX plant. **Change in risk after mitigation**

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 Risk Committee.

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

Lord Guthrie
Chairman of the Risk Committee
27 March 2013

Board of Directors

Mr 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.

Mr Sergey Ermolenko
Chief Executive Officer
Mr Ermolenko was appointed Chief Executive Officer 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 operation, overseeing the commissioning of Pokrovskiy, Pioneer, Malomir and Albyn. Mr Ermolenko has over 40 years' experience of operating mines in the Russian Far East.

Mr Martin Smith
Deputy Chief Executive
Mr Smith was appointed Deputy Chief Executive Officer 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.

Mr Andrey Maruta
Chief Financial Officer
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 and promoted to the position of Chief Financial Officer in April 2012.

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 High Business School. She is Chairman of the Strategic Committee and a member of the Group's HSE Committee.

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.

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. Sir Malcolm is currently the senior independent director of Hochschild Mining plc and a non-executive director of Odgers Berndtson. 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.

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. In addition, Sir Roderic was appointed as a non-executive director of JP Morgan Bank International LLC in 2013. 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.

Dr David Humphreys
Non-Executive Director
Dr David 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 adviser on minerals policy. Dr Humphreys is a member of the Risk, HSE and Remuneration Committees.

Lord Guthrie
Non-Executive Director
Field Marshal 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.

Mr Charles McVeigh III
Non-Executive Director
Mr McVeigh III joined the Group as Non-Executive Director in June 2009. He is a Senior Advisor for Citigroup. He also serves on the boards of EFG-Hermes, Savills Plc and Canongate. He is a Trustee of the Landmark Trust and the National History Museum. 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.

Ms Rachel English
Non-Executive Director
Ms Rachel English was appointed to the Board in March 2012. She is currently a non-executive director of Kuwait Energy Plc, Global Carbon Capture and Storage Institute Ltd and the Audit Committee of the Department for International Development. She is also a director of Helios Social Enterprise, which she founded with former Scottish Power, BP and Shell senior executives to develop rural electrification projects in 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 Fellow of the Institute of Chartered Accountants in England and Wales. Ms English is a member of the Audit Committee.

Directors' Report

For the year ended 31 December 2012

Report and financial statements
The Directors present their report and the audited financial statements for the year ended 31 December 2012.

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

- Gold mining at the Pokrovskiy, Pioneer, Malomir and Albyn mines;
- Gold mining from the Group's alluvial operations;
- Exploration at, near, or adjacent to the Pokrovskiy, Pioneer, Malomir and Albyn mines, adding to the Group's JORC Mineral Resources;
- The development of the Group's POX Hub at the Pokrovskiy mine and the related flotation plant at the Malomir mine;
- The commissioning of the second 1.8Mtpa capacity RIP milling line at Albyn and the fourth 2.0Mtpa milling line at Pioneer; and
- Evaluation of potential business opportunities.

The principal activities of IRC, during the year were:

- Iron ore production at Kuranakh mine (consisting of the Kuranakh and Saikta deposits) located in the Amur Region of Russia; and
- The exploration and development of iron-related Reserves and Resources, including the continuation of the K&S project due to be commissioned in 2014, the Garinskoye project and the Bolshoi Seym project.

Plans for future developments are included in the Chairman's Statement on pages 2 to 4.

Post balance sheet events
Proposed issue of shares by IRC
On 17 January 2013, IRC entered into conditional subscription agreements with each of General Nice Development Limited ("General Nice") and Minmetals Cheerglory Limited ("Minmetals") (collectively the "Investors") for a proposed aggregate investment by General Nice and Minmetals in new shares of IRC for up to approximately US$238 million. In addition, IRC has also entered into a long-term offtake arrangements with General Nice and Minmetals in respect of the IRC Group's products.

The Company has also entered into a Shareholders' Agreement with the Investors and an Indemnity with General Nice, which will come into effect upon full completion of the transaction. The term of the Shareholders' Agreement is from the date of the completion of the transaction until the earlier of (i) the Group's relevant interest as calculated in accordance with the Shareholders' Agreement in IRC shares or the interest of General Nice and Minmetals becoming less than five per cent and (ii) a party being in material breach of the Shareholders' Agreement and a non-defaulting part electing to terminate it.

The Shareholders' Agreement contains provisions including certain rights for both Petropavlovsk and the Investors for nomination of (i) directors to the board of IRC and (ii) members to the IRC board executive committee, depending on their actual or relative holding of IRC shares, restrictions (subject to certain exceptions) in dealing in, inter alia, IRC shares for a one year lock-up period following full completion of the transaction (and subsequent notification obligations); and obligations in respect of certain actual or prospective agreements between the parties and IRC. The Company and the Investors have given mutual undertakings not to, and will procure that parties acting in concert with it will not, acquire voting rights in IRC which would result in an obligation to make a mandatory general offer by any or all of Petropavlovsk and the Investors in accordance with the Hong Kong Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong, or in the case of the IRC, as also required by the listing rules of the Stock Exchange of Hong Kong. The parties of the Shareholders' Agreement are also required to use their voting and procurement powers to give effect to the provisions of the Shareholders' Agreement.

The Indemnity addresses the situation that the Company will remain liable to guarantee all of K&S's obligations under K&S's loan facility with ICBC (the "Bank Guarantee"). Although the Company will remain liable to ICBC under this Bank Guarantee, it will have a contractual right to recover a proportion (based on the relative holdings of the Company and General Nice in IRC) of any sums paid by the Company under the guarantee or pursuant to the terms of a recourse agreement entered into between the Company, IRC and K&S on 13 December 2010 throughout the Indemnity if the transaction is fully implemented. A fee will become payable by IRC to the Company in respect of the provision by the Company of the Bank Guarantee if IRC is de-consolidated from Petropavlovsk in its accounts; this fee will be shared with General Nice under the indemnity arrangements.

In addition, the Shareholders' Agreement provides that General Nice and Minmetals will use its respective reasonable efforts to assist the Company with the removal or reduction of its obligations under the Bank Guarantee.

Hedging agreements
In February 2013, the Group entered into financing contracts to sell a total of 399,000oz of gold over a period of 14 months ending in March 2014 at an average price of US$1,663/oz.

Further details are set out in note 35 to the Consolidated Financial Statements.

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 funding the development of the Company's activities.

The Directors recommend a final dividend for 2012 comprising a cash payment of £0.02 per Ordinary Share together with an entitlement to new shares with an attributable value of £0.05. Each eligible shareholder will accordingly be

	As at 1 January 2012		As at 31 December 2012		As at 27 March 2013	
	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
Dr Graham Birch	10,000	0.005%	10,000	0.005%	10,000	0.005%
Mr Brian Egan [1]	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	8,672,558	4.62%	8,672,558	4.62%	8,672,558	4.62%
Sir Roderic Lyne	1,625	0.001%	1,625	0.001%	1,625	0.001%
Mr Sergey Ermolenko	302,500	0.161%	302,500	0.161%	302,500	0.161%
Ms Rachel English [2]	N/A	N/A	Nil	Nil	Nil	Nil
Mr Andrey Maruta and Associates	3,333	0.0018%	3,333	0.0018%	3,333	0.0018%
Mr Charles McVeigh	500	0.00%	500	0.00%	500	0.00%
Dr Alfiya Samokhvalova	Nil	Nil	Nil	Nil	Nil	Nil
Mr Martin Smith	Nil	Nil	Nil	Nil	Nil	Nil
Dr David Humphreys and Associates	1,820	0.0010%	1,820	0.0010%	1,820	0.0010%

1 Mr Brian Egan resigned as a Director on 13 April 2012, hence the number of shares shown as at 31 December 2012 represents the number of shares held as at the date of his resignation.

2 Ms Rachel English was appointed as a Director on 28 March 2012.

entitled to receive, in addition to the cash dividend, such number (rounded down to the nearest whole number) of Ordinary Shares as shall have an aggregate value at the Relevant Price (as defined below) equal to £0.05 multiplied by the number of Ordinary Shares in respect of which they are entitled to receive a dividend. The Relevant Price is expected to be the average of the middle market quotations of an Ordinary Share, as derived from the London Stock Exchange Daily Official List, for the five consecutive dealing days commencing on the day on which the Ordinary Shares are first quoted "ex" the dividend entitlement. The dividend package is subject to approval by shareholders at the 2013 Annual General Meeting to be held on 11 June 2013. If approved by shareholders, the cash dividend is expected to be paid, and the new Ordinary Shares are expected to be issued, on 26 July 2013 to shareholders on the register as at 28 June 2013. The associated ex-dividend date will be 26 June 2013. Further information has been provided to shareholders together with the notice of the Annual General Meeting which has been posted to shareholders together with this Annual Report.

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:

- Chairman's Statement on pages 2 to 4;
- Business Model & Strategy on pages 5 to 7;
- Gold market on pages 8 to 9;
- Our Key Performance Indicators on pages 10 to 13;
- Chief Financial Officer's Statement on pages 14 to 23;
- Operations & Development on pages 24 to 37;
- Exploration, Reserves & Resources on pages 38 to 49;
- Sustainability on pages 50 to 63;
- The Report of the Risk Committee on pages 66 to 77;
- The Corporate Governance Report on pages 86 to 93;
- The Directors' Remuneration Report on pages 94 to 111; and
- The Audit Committee Report on pages 112 to 115.

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 Strategy & Performance Overview, Operations & Development and Exploration, Reserves & Resources sections on pages 2 to 49, which form part of this Directors' Report.

Sustainability
Information is contained in the Sustainability section on pages 50 to 63.

Directors
The current Directors of the Company, at the date of this report, and their biographical details appear on pages 78 to 79 and are incorporated into this report by reference. Subject to the following, all of the Directors held office throughout the year ended 31 December 2012.

Mr Brian Egan resigned as Chief Financial Officer and Mr Andrey Maruta was appointed as Chief Financial Officer on 13 April 2012. Mr Maruta previously held the main Board position of Finance Director – Russia. Ms Rachel English was appointed to the Board as a Non-Executive Director on 28 March 2012.

Directors' Report continued

For the year ended 31 December 2012

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. 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 2013 AGM. 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. Further information on the appointments to the Board is set out in the Corporate Governance Report on page 86.

Directors' interests
The interests of the Directors in the share capital of the Company at the beginning, at the end of the year, and as at the date of this report are as detailed in the table on page 81.

There have been no changes to the interests of the Directors between 1 January 2013 and the date of this Directors' Report.

Details of the awards made to Directors under the Company's Long-Term Incentive Plan are set out in the Directors' Remuneration Report on pages 101 to 105.

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 68 to 77, which forms part of this Directors' Report.

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.

In a declining gold price environment, the Group may be exposed to breaches of certain financial covenants. As part of a number of alternatives to proactively address this risk, the Group has entered into financing contracts to secure the average realised gold price for a total of 399,000oz of gold over the period of 14 months ending in March 2014 at the level of US$1,663/oz (note 35, page 167) and negotiated the investment in IRC Limited (note 35, page 168), which will have the impact of deconsolidating IRC and its debt.

Taking into the account of the aforementioned and further mitigating actions that the Group could take in the event of adverse changes, the Group expects to be able to operate within the level of its secured facilities for the subsequent 12 months from the date of approval of the 2012 Annual Report and Accounts.

Accordingly, 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.

Key performance indicators
The Company's performance is measured against the Key Performance Indicators ("KPIs") as contained on pages 10 to 13.

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 Principal Risks Report on pages 66 to 77, which forms part of this Directors' Report.

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 2012 were 35 days on average for the Group (2011: 35) and 23 days on average for the Company (2011: 23).

Donations
No political donations were made and no political expenditure was incurred during the year (2011: US$nil). Sponsorship and charitable donations amounted to US$2.6 million (2011: US$3.4 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 in the Russian Far East region. The Group regards the provision of charitable donations as an important part of its strategy to maintain good working relationships with local authorities and local communities.

Details of the Group's charitable activities are set out in the Sustainability section on pages 62 to 63 of this Annual Report.

Corporate governance and shareholder relations
The Corporate Governance Statement on pages 86 to 93 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 89 to 90.

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 section of this report.

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 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 Benefication 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 23 on page 153. 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 or she 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:

(a) it is in respect of a share which is fully paid up;

(b) it is in respect of only one class of shares;

(c) it is in favour of a single transferee or not more than four joint transferees;

(d) it is duly stamped (if so required); and

(e) 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 or her 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.

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 2012		27 March 2013	
Shareholder	Number of Ordinary Shares	% of issued Ordinary Share capital	Number of Ordinary Shares	% of issued Ordinary Share capital
BlackRock Inc.	18,759,363	9.99%	18,759,363	9.99%
Vanguard Precious Metals and Mining Fund	7,750,000	4.13%	13,500,000	7.19%
Norges Bank	7,523,884	4.01%	11,507,086	6.13%
Peter Hambro & Associates	8,672,558	4.62%	8,672,558	4.62%
Capital Research and Management Company	7,534,114	4.01%	7,534,114	4.01%

As at 27 March 2013, the Company has not received any notification that any other person holds 3% or more of the Company's issued share capital.

Capital structure continued

– 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 31 May 2012. 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 are contained in the Notice of Annual General Meeting, a copy of which has been sent to shareholders together with this Annual Report.

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.

Auditors
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 Auditors are 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 Auditors are 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 auditors 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 2013

Corporate Governance Report

Letter from the Chairman of the Company and Nomination Committee Chairman

For the year ended 31 December 2012

Dear Shareholder

In my Chairman's statement I summarised the operational performance of the Group during 2012 and the outlook for 2013, which is due to be a transformational year for the Group, with the finalisation of our POX Hub due to be commissioned in Q1 2014. I also referred to the growth of the Group not only that we achieved our tenth consecutive year of increased gold production during 2012, but also our commissioning of new lines. Alongside this growth, the Board has developed a corporate governance framework to ensure we act responsibly and with accountability at all times. The Board believes that good governance is fundamental to the success of the Company and to our relationship with our shareholders.

I am pleased to discuss more fully the work and operation of the Board and the corporate governance framework within which we operate.

Board changes

Following the appointment of four Executive Directors and one Non-Executive Director in 2011, 2012 was a year of further change for the Petropavlovsk Board. The Board sought to strengthen the composition of the Board further by appointing an additional Non-Executive Director; this was in part led by succession planning issues. The Nomination Committee led the appointment process on behalf of the Board working closely with external consultants. As a result of this process, I was pleased to announce the appointment of Ms Rachel English as a Non-Executive Director with effect from 28 March 2012. Ms English, a chartered accountant, has brought a wealth of experience that she has amassed in the global energy sector, in particular her first-hand experience of developing projects in challenging business environments into profitable enterprises. I was also pleased to announce the appointment of Mr Andrey Maruta as Chief Financial Officer on 13 April 2012 following the departure of Mr Brian Egan. Mr Maruta previously held the main Board position of Finance Director – Russia. I would like to thank Brian for his substantial contribution to Petropavlovsk. There were no other changes to the Board during the year.

Diversity

Whilst Ms English's appointment was based on her skills, experience and knowledge, her appointment has brought more diversity to the Board. We, as a Board still consider that it is not appropriate to set an aspirational target for the percentage of women that we aim to have on our Board. Indeed, we wish to continue to appoint the best candidate available to us for any particular role. I am pleased to confirm that our Board and our Executive Committee are now comprised of 15% and 20% of women respectively. Of further note is the significant increase of women employed within the Group in managerial positions, from 89 in 2010 to 197 in 2012, particularly given that the mining sector has historically been a male dominated environment.

It is also pleasing to report that the Group's training college actively encourages women to consider careers within the mining sector, undertaking recruitment initiatives aimed at encouraging women to consider careers in male dominated professions. (See page 58 for further information).

The Board now comprises of, myself as Chairman, four Executive Directors and seven Non-Executive Directors, all of whom are considered 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. Dr Pavel Maslovskiy, the Company's former longstanding Chief Executive and one of its founding members, was appointed as the Company's Honorary President in December 2011, and continues to provide valued advice to the Company. The Board and I remain grateful to Dr Maslovskiy for his continued support.

We met as a Board, on seven scheduled occasions during the year. Further Board meetings were held regarding the proposed issue of new shares by IRC, the Group's 63.13% owned Hong Kong listed subsidiary to two new investors, for which this Company sought approval from our shareholders at a general meeting held on 7 March 2013. We also held additional meetings to deal with matters of a routine or administrative nature. We again held a separate dedicated strategy meeting in November which was attended by all of the Directors together with members of the Executive Committee and other senior executives, and which is now a regular fixture of the Board's annual calendar. I discuss matters on a regular basis with both the Executive Directors and 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 considered the following matters during the year:

- the transaction, referred to on page 86 regarding the issue of new shares by IRC, which included the issue by the Company of a Circular to shareholders;
- the Group's hedging arrangements;
- the Company's five year strategic and mining plan; and
- the Group's on-going compliance with the Bribery Act 2010, which is monitored by the Anti-Bribery Committee, chaired by myself, as Company Chairman.

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. 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. The 2012 Board evaluation also asked Directors to identify areas where they thought that they or the Board would benefit from further training. These issues will receive focus during 2013.

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 if considered necessary to discharge their responsibilities as Directors, and at the Company's expense.

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. During the year the Nomination Committee considered the selection and appointment of an additional Non-Executive Director, assisted in this search by external consultants, which culminated in the appointment of Ms Rachel English. Her appointment was recommended to the Board on merit and against objective criteria. Care was taken to ascertain that Ms English would have sufficient time available to meet her Board and Committee responsibilities before any formal recommendation was made to the Board for her appointment and her letter of appointment details the expected time commitment. No Director has a notice period of more than one year.

Ms English met with the majority of the Directors, both Executive and Non-Executive, as part of the selection process. Her tailored induction programme included further meetings with certain of the Executive Directors and with senior management and the provision of detailed information on the Group. Ms English also held regular scheduled meetings with Mr Andrey Maruta, Chief Financial Officer, to increase her knowledge of specific financial matters relating to the Group, to enable her to contribute effectively as a member of the Audit Committee. She has also met separately with the Company's external audit partner.

In addition, the Nomination Committee reviewed succession planning for the Executive Directors and for members of the Executive Committee and this still remains a key focus for the Nomination Committee. As part of its remit, the Nomination 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.

Corporate Governance Report
continued

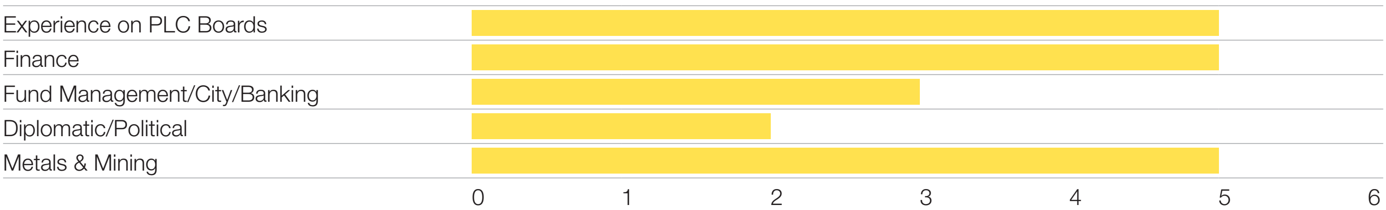
For the year ended 31 December 2012

The Board of Directors

Director	Title	Date of appointment	Date of resignation
Peter Hambro	Chairman	20 December 2001	
Sergey Ermolenko	Chief Executive Officer	20 December 2011	
Andrey Maruta	Chief Financial Officer Finance Director – Russia	13 April 2012 4 January 2011	
Brian Egan	Chief Financial Officer	22 April 2009	13 April 2012
Alya Samokhvalova	Strategic Director/Group Head of External Communications	4 January 2011	
Martin Smith	Deputy Chief Executive	4 January 2011	
Graham Birch	Senior Independent Director Non-Executive Director	4 January 2011 12 February 2010	
Sir Malcolm Field	Non-Executive Director	22 April 2009	
Lord Charles 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	
Rachel English	Non-Executive Director	28 March 2012	

The Board is satisfied that all Directors have sufficient time to devote to their roles and that given the composition of the Board it is not placing undue reliance on key individuals.

The following table illustrates the collectives business experience held by Board Directors, outside that acquired at Petropavlovsk:



Biographies of the Directors, including details of their skills and experience, are provided under “Board of Directors” on pages 78 to 79.

UK Corporate Governance Code compliance
The Board can report that, with one exception, the Company is currently in compliance with the UK Corporate Governance Code (the "Code") which was published by the Financial Reporting Council in June 2010.

This one exception concerns my position as Chairman of the Company. I was not considered as "independent" under the term of the Code at the date of my appointment nor do I satisfy the required independent criteria now.

However, the Board is satisfied that my position as Chairman is clearly separated from that of Mr Sergey Ermolenko, Chief Executive Officer.

The division of responsibilities between my role of Chairman, and that of Mr Ermolenko's role of Chief Executive Officer and Mr 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.

The Company complied, in all other respects, with the Code during 2012.

Anti-Bribery Committee
The Board has adopted a zero-tolerance approach to corruption and bribery issues. The Board established an Anti-Bribery Committee in the latter part of 2010, for which I act as Chairman. The Anti-Bribery Committee also comprises of three Executive Directors, two members of the Executive Committee and the Company Secretary.

The Company has adopted policies and procedures and we have provided training on the Bribery Act 2010 to our employees in both Russia and London.

In addition, the Anti-Bribery Committee has approved a Code of Business Conduct and Ethics, a copy of which has been provided to our employees within Russia. The Code of Business Conduct and Ethics details, amongst other matters, an employee's obligation to comply with all applicable laws and legislation, the Group's policy on potential conflicts of interest, gifts and hospitality and protection of the Group's assets. Importantly, it sets out the procedures which employees are expected to follow if they are in any doubt about any issue. All employees are required to acknowledge that they have received a copy of the Code of Business Conduct and Ethics and confirm that they will act in compliance with such policy. An English and Russian version of this code can be located on the Company's website or can be requested from the Company Secretary.

The Anti-Bribery Committee reports to the Board at each meeting.

Performance evaluation
The 2012 evaluation of the Board and its Committees has been undertaken internally using a confidential questionnaire with directors identifying opportunities for improvement. The process was led by Dr Graham Birch, as Senior Independent Director. The questionnaire covered issues such as effectiveness of the Board and corporate governance and included a detailed section on the evaluation of each of the Board's Committees. The questionnaire also covered the individual performance of each of the Directors. The responses of the Directors were collated into a report by the Company Secretary. I have discussed the outcome of the evaluation with Dr Birch, who has formally reported to the Board. Areas identified for improvement included the format of reporting to the Board and the preference by some of the Non-Executive Directors to have more contact with senior management, which given the remote location of the Group's operations is somewhat complex. However, this is one of the issues that I and the Board will address during 2013. The evaluation, although recognising several areas where improvements can be made, and which will be addressed as appropriate during 2013, concluded that the Board and its Committees are operating effectively.

The Board intends to undertake its Board evaluation during 2013 using an external assessor, in accordance with the Code. This process will again be led by Dr Birch and the conclusion thereof will be included in the 2013 Corporate Governance Report.

Shareholder engagement
We delivered on our communication strategy in 2012 by:

- Maintaining an active dialogue with our shareholders, with members of the Executive meeting, with approximately 200 individual investor companies during the year.
- The Executive Directors attended investor conferences in Europe, USA and Asia, including London and Moscow.
- In June, the Group took a small group of investors and analysts to visit the Pioneer, Malomir, Albyn and Pokrovskiy mines and the pilot test POX plant in Blagoveschensk. The visits were supplemented by workshops and presentations which were given by the executive management and key operational management.
- In July, the Executive Directors together with the Head of the Group's Research & Development and representatives from Outotec, our experienced partner, made a presentation to analysts and investors on the progress of the construction of the POX Hub. This event was webcast and can be accessed at www.petropavlovsk.net.
- Conference calls were held for investors and analysts following the Company's full year and half year results announcements.
- Dr Graham Birch, our Senior Independent Director, continued to provide an independent access point for our institutional shareholders to whom he is well known.
- Sir Malcolm Field, Remuneration Committee Chairman and the Company Secretary entered into a dialogue with corporate governance bodies and institutional shareholders regarding remuneration issues.

Individual shareholders are equally as important to us as are our institutional shareholders and we encourage as many shareholders as possible to attend the Company's Annual General Meeting during which shareholders are given the opportunity to discuss any matters with the Board. Shareholders are kindly asked to read the accompanying notes to the Notice of Annual General Meeting to ensure that they have the correct documentation with them should they wish to attend the meeting on 11 June 2013. Shareholders are also welcome to contact our Investor Relations Department based at our registered office in London during the year with any specific queries regarding the Company.

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. We welcome comments from shareholders on its content. I ensure that the views of shareholders are communicated to the Board as a whole.

At the Company's 2013 AGM, 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. All Board Directors who are able to attend will be available, as usual, to meet with shareholders after the meeting to discuss any issues.

Annual re-election of directors
In accordance with the requirements of the Code, all of the Directors will submit themselves for annual re-election at the 2013 Annual General Meeting.

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 Annual General Meeting.

Biographical details of all Directors are included on pages 78 to 79.

You should be aware that I, as Chairman, am also a 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 2013

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.

Corporate Governance Report
continued

For the year ended 31 December 2012

Committee membership and attendance during the year

Current membership of Board Members of these Committees, membership and attendance at meetings during the year is shown in the table below.

	Board			Audit		Remuneration		Nomination		HSE		Risk	
		Scheduled	Review of strategy										
Peter Hambro [3]	C	7/7	1/1	–	–	–	4	C	3/3	–	5	–	6
Sergey Ermolenko [3]	M	5/7	1/1	–	3	–	–	–	–	–	2	–	4
Graham Birch [1]	M	7/7	1/1	M	4/4	–	–	M	3/3	–	–	M	6/6
Brian Egan [3, 4]	M	2/2	–	–	1	–	–	–	–	–	–	–	2
Rachel English [1,2,5]	M	4/5	1/1	M	2/3	–	–	–	–	–	–	–	–
Sir Malcolm Field [1,5]	M	6/7	1/1	C	4/4	C	4/4	M	3/3	–	–	–	–
Lord Guthrie [1]	M	7/7	1/1	–	–	M	4/4	–	–	M	5/5	C	6/6
David Humphreys [1]	M	7/7	1/1	–	–	M	4/4	–	–	M	5/5	M	6/6
Sir Roderic Lyne [1]	M	7/7	1/1	–	–	M	4/4	–	–	C	5/5	M	6/6
Charles McVeigh [1]	M	7/7	1/1	M	4/4	–	–	M	3/3	–	–	–	–
Andrey Maruta [3]	M	7/7	1/1	–	4	–	–	–	–	–	–	–	–
Alya Samokhavlova [3]	M	7/7	1/1	–	–	–	–	–	–	M	5/5	–	5
Martin Smith [3]	M	7/7	1/1	–	–	–	–	–	–	M	5/5	M	6/6

Key: C= Chairman, M= Member

1 *Considered an Independent Director under the Code.*

2 *Ms Rachel English was appointed as a Director on 28 March 2012.*

3 *As detailed in the table, Directors who were not members of the Audit, Remuneration, HSE and Risk Committees may attend meetings at the invitation of the Chairman of that Committee.*

4 *Mr Brian Egan resigned as a Director and as Chief Financial Officer on 13 April 2012.*

5 *Ms Rachel English did not attend the Board and the Audit Committee meeting held on 5 December 2012 due to sickness. Sir Malcolm Field was unable to attend one Board meeting during the year due to a previous commitment.*

Shareholders will be aware that the successful completion of the POX Hub is critical to the Group's future success. As Chief Executive Officer, the delivery of this project is one of Mr Ermolenko's key priorities. Unfortunately this has resulted in Mr Ermolenko's absence from two scheduled Board meetings since his attendance at any meeting held in the UK, requires a considerable absence for Mr Ermolenko from this project and from managing the Group's mining operations given their location in the Far East Amur Region of Russia. However, the Deputy Chief Executive, Mr Martin Smith, who works closely with Mr Ermolenko, has attended every Board meeting and reports to the Board on Mr Ermolenko's behalf when he is unable to attend, specifically in respect of the Group's operational performance.

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 as follows:

Audit, Remuneration and Risk Committees

Reports from the Chairman of the Audit, Remuneration and Risk Committees can be found on pages 112 to 115, 94 to 111 and 66 to 77 respectively.

Nomination Committee

For information on the work and membership of the Nomination Committee during the year see pages 87 and 90.

Health, Safety and Environmental Committee ("HSE Committee")

During the year, the Committee comprised of Sir Roderic Lyne as Committee Chairman, Lord Guthrie, Dr David Humphreys, Mr Martin Smith and Dr Alya Samokhvalova.

The HSE 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.

Further information on the Company's Sustainability policies and performance may be found on pages 52 to 63.

The Executive Committee

The Executive Committee comprises the Company Chairman, the four Executive Directors and the following four senior Executives:

- 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".

See page 55 for further information on the Executive Committee.

Strategic Committee and Technical Committees

The Strategic and Technical Committees were established in 2011 to manage the more complex multi-mine business which the Group has transformed into.

The Strategic Committee is chaired by Dr Alya Samokhvalova, Strategic Director, whilst the Technical Committee is chaired by Mr Martin Smith, Deputy Chief Executive. These Committees comprise of senior executives and operational management. 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 at each Board meeting. The Committees work closely, providing detailed analysis to the Executive Committee on proposed projects, exploration and mining plans. During 2012, the Committees were involved in the revision of the Group's five year Mining and Strategic Plan with detailed presentations being made to the Board during the strategy meeting held in November 2012 for consideration and discussion.

Directors' Remuneration Report
Sir Malcolm Field
Chairman of the Remuneration Committee

For the year ended 31 December 2012

Dear Shareholder
As Chairman of the Remuneration Committee (the "Committee"), I am pleased to introduce our report on remuneration for 2012, for which we seek your support at our annual general meeting on 11 June 2013.

This report is intended to provide you with the necessary information to demonstrate the link between the Group's strategy, its performance and the remuneration paid to our Executive Directors and senior management. It also includes the disclosures required under the UK Corporate Governance Code. In this Report the Committee has chosen to adopt early some of the provisions being introduced by the UK Government to improve transparency in the reporting of information on remuneration. We hope that our approach will assist our shareholders; we welcome your feedback.

Consideration of shareholder views
The Committee remains cognisant of the views of the wider investor community regarding excessive executive remuneration which led to the "Shareholder Spring" last year. I and my colleagues are mindful of our obligation to listen to and understand the views of Shareholders, in order that the Committee can take these into account in its decision making. At the Company's 2012 annual general meeting the Committee's 2011 Directors' Remuneration Report received votes of 89.5% in support, 10.5% against with 4.4% of votes withheld[1]. Whilst we were grateful to Shareholders for their considerable support we wanted to address the concerns of Shareholders who had either voted against or abstained from voting on this resolution. The Committee met and consulted with some of our major Shareholders and corporate governance bodies, both prior to and after the Company's 2012 Annual General Meeting, to address any concerns which had arisen from the Committee's 2011 Report. The principal issues raised by Shareholders concerned were:

(i) the salary increases given to certain of our Executive Directors, albeit that they were awarded due to the considerable additional responsibilities and the wider remit of these individuals following the resignation of Dr Pavel Maslovskiy as Chief Executive Officer on 20 December 2011; and

(ii) the early vesting of 20% of Dr Maslovskiy's 2011 Long-Term Incentive Plan, which was considered by the Committee in accordance with the Plan Rules. No other payment was made to Dr Maslovskiy upon his resignation and no fees are paid to Dr Maslovskiy although he continues to provide valued advice to the Company in his position as Honorary President.

I trust that following the discussions with our major Shareholders we have been able to allay their concerns on these issues. This Report details how the Committee has taken comments from Shareholders into account in its consideration of specific remuneration matters during the year. I hope you will find the following Report informative.

I and my fellow Committee members will be present at the forthcoming Annual General Meeting and will be pleased to answer any queries you may have. However, if you are unable to attend or have a query or comment prior to this date, please email the Company Secretary, Amanda Whalley at aw@petropavlovsk.net and we will be pleased to address any issues.

Sir Malcolm Field
Remuneration Committee Chairman

Directors' Remuneration Report
Index:

1. Remuneration Committee membership and meetings
During 2012, the Committee comprised, Sir Malcolm Field as Chairman, Lord Guthrie, Sir Roderic Lyne and Dr David Humphreys.

The Committee held four formal meetings during the year under review with additional meetings held as appropriate. The Company Chairman attended parts of these meetings at the Committee Chairman's 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 attended each meeting as Secretary to the Committee.

1 A vote withheld is not a vote in law and is not counted in the calculation of the votes "For" or "Against" a resolution.

The Committee considered the following matters during the year under review.

Regular standing items;

– Reviewed and approved:

i. 2011 Directors' Remuneration Report;

ii. Bonus payable to the Executive Directors and Executive Committee members for the year ended 31 December 2012; and

iii. 2013 bonus targets and structure.

– Confirmed Executive Directors' salaries for 2013.

Other agenda items:

– Reviewed and approved the termination arrangements for Mr Brian Egan, in accordance with his service agreement, who resigned as Chief Financial Officer on 13 April 2012.

– Reviewed the market trends with respect to long-term incentive performance conditions.

– Reviewed the achievement of performance conditions related to the 2009 LTIP Awards.

– Considered the consultations undertaken by the Department for Business Innovation and Skills on executive pay and the report of the High Pay Commission.

– Considered the introduction of minimum shareholding guidelines for the Company's Executive Directors and Executive Committee members.

2. Advisers to the Remuneration Committee

During the year the Committee received advice from Kepler Associates ("Kepler") who are the principal independent adviser to the Committee. Kepler's advice included a review of the performance conditions attached to the Company's Long-Term Incentive Plan ("LTIP") to consider whether these were appropriate to the Group's strategy and assistance with a pay benchmarking exercise for the Executive Directors.

Kepler is a leading and well respected adviser on executive remuneration issues and the Committee consider that they have developed a good understanding of the Company's business strategy and thus provide valuable assistance to the Committee in aligning the Company's reward strategy with its business strategy. Kepler reports directly to the Committee Chairman and is a signatory to the Code of Conduct for Remuneration Consultants (which can be found at www.remunerationconsultantsgroup.com). During the year the Committee paid fees of £24,730 to Kepler. Norton Rose LLP has also provided advice to the Committee during the year, including in relation to the vesting of the 2009 LTIP Awards and the proposed grant of 2012 LTIP Awards. Norton Rose is also the Company's corporate legal adviser.

3. Remuneration policy

The Company's policy was unchanged from 2011, with a substantial proportion of the remuneration of the Executive Directors and senior management performance-related.

The Committee recognises that the Company's high-calibre Executive Directors and Executive Committee members are essential to delivering the Group's strategy to grow through exploration and the application of advanced technologies. 2013 is expected to be a transformational year for the Group with completion of the POX Hub scheduled for planned commissioning in Q1 2014. The Group's remuneration policy is therefore designed to provide remuneration packages to retain and motivate its executives throughout this key period and to attract new talent as required.

During 2013 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. In particular, the Committee is mindful that the mining sector is a highly competitive environment for executive talent and that consequently the Company needs to ensure that the remuneration offered remains competitive relative to its peers. However, the Executive Directors have offered to waive their bonus opportunity in 2013 given the recent decline in the Company's share price and the net debt position of the Group. The Committee has accepted this proposal and there will be no bonus opportunity during 2013 for the Executive Directors or members of the Executive Committee, with one exception, and this is explained in more detail on page 100. It is the Committee's intention to reinstate the bonus opportunity in 2014.

The key remuneration components for Executive Directors and senior management are set out in the following table.

Directors' Remuneration Report
continued

For the year ended 31 December 2012

4. Overview of the Company's policy on Executive remuneration
Key elements of remuneration

	Purpose and link to strategy	Operation	Opportunity	Performance metrics in 2012	Changes in year
Base salary Go to section A on page 98 for more information	To support recruitment and retention.	Reviewed annually and typically take effect from 1 January of each year, unless there is a significant change in the responsibilities of the role. Reviews take account of: – The Group's performance; – The individual performance of the Executive Director, their experience, skills and potential; – Market competitiveness within the Group's sector; – Salary increases across the wider employee population; – The wider pay environment. Salaries are benchmarked against the FTSE 350 mining companies.	In principle, salary increases will not be awarded higher than inflation. However, larger increases may be awarded by the Committee to reflect additional responsibilities, promotion, exceptional performance and any other matters which the Committee may consider relevant.	None, but increases take into account individual performance.	The Executive Chairman took a voluntary 15% reduction in salary from £655,000 to £555,000 with effect from 1 June 2012. His previous salary has not been reinstated for 2013. No increases were awarded to the Executive Directors with effect from 1 January 2013 with the exception of the CFO who received an increase of c.4%.
Benefits See tables on page 111 for amounts paid in respect of benefits	To provide market competitive benefits.	Directors are entitled to life assurance and private medical for the Director and his/her family. Private medical is treated as a benefit in kind and subject to tax for UK resident directors.	The cost of these benefits to the Company is dependent upon market rates and availability of the respective benefits.	None	None
Annual bonus Go to section B on page 98 for more information	To reward the achievement of the Group's corporate targets, strategic and business objectives whilst recognising the Group's wider corporate responsibility and management of risk.	The bonus payable is determined by the Committee after the year-end, based on the Group's achievement against pre-determined targets. The Committee has discretion to withhold or defer annual bonus payments if thought appropriate and in reviewing the achievement of performance conditions will consider the overall relative success of the Group during the year.	Maximum bonus opportunities as percentage of salary for 2012: Executive Chairman: 150% Other EDs: 100%	70% subject to achievement of Group targets. 30% subject to achievement of three personal objectives, one of which was "risk" related, with equal weighting.	Reduction in the CEO maximum bonus opportunity from 150% to 100% of salary following the appointment of new CEO in December 2011. 2013 Bonus: £50,000 maximum bonus opportunity for the CFO subject to Group financial targets. No bonus opportunity for the Executive Chairman, CEO or Other EDs.

Key elements of remuneration
continued

	Purpose and link to strategy	Operation	Opportunity	Performance metrics in 2012	Changes in year
LTIP	To reinforce 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. The vesting of performance shares is also underpinned by Committee discretion.	Annual awards of performance shares with vesting dependent on the achievement of performance conditions over the three-year performance period and continued employment with the Group.	The maximum award is 200% of salary. In exceptional circumstances this may be exceeded.	Vesting of Awards is subject to achievement of challenging pre-set performance conditions determined by the Committee. The conditions are set having regard to market practice within the mining sector and relate to the overall performance of the Company.	No awards were made in 2012. The performance conditions for 2013 have been amended following feedback from shareholders in 2011, specifically in relation to the vesting level of the TSR performance condition. The Committee is currently undertaking a consultation process with some of the Company's major shareholders regarding the proposal for grants in 2013 to be based 50% on Reserves & Resources targets and 50% on relative TSR.
Pension	To provide market competitive pension benefits that are in line with the wider workforce, whilst ensuring no undefined liability on the Company.	All Executive Directors, with the exception of Messrs Hambro and Ermolenko, are entitled to receive contributions from the Company into a defined contribution pension plan.	Between 5% and 12.5% of salary from the Company (with a minimum contribution from the Executive Director of 3%).	None	None

Go to section C on page 101 for more information

See tables on pages 106 and 110 for amounts paid in respect of pension entitlement

Directors' Remuneration Report
continued

For the year ended 31 December 2012

A. Basic annual salary
Salaries are reviewed annually with increases typically effective from 1 January of each year. The Committee reviews base salary for the Executive Directors and members of the Executive Committee against the FTSE 350 mining companies and listed companies of similar size and complexity. The Committee also takes into account the Group's performance, the individual performance of each executive, and pay and conditions elsewhere in the Group.

The Committee recognises that the remuneration of some of the Executive Directors is between median to upper quartile relative to market, and believes this to be necessary, given the intense competition for talent in the mining sector and the need to retain its highly qualified and experienced Executive team. The particular nature of the Company, which has its operating assets in Russia with approximately 15,000 employees whilst being resident and listed on the Main Market of the London Stock Exchange, requires skills that are outside the normal scope of most mining executives' employment criteria. These include a considerable fluency in English and Russian, a good knowledge of the customs and practices of the mining industry in Russia and of those most commonly understood by western investors and a willingness to devote a large part of family life to the interest of the Company.

During the year Mr Peter Hambro advised the Committee of his voluntary decision to reduce his salary from £655,000 to £555,000 with effect from 1 June 2012. Mr Hambro explained that this £100,000 reduction, together with its concomitant £150,000 potential bonus reduction, was decided upon in light of a Group-wide need to control costs. At his request, Mr Hambro's salary and bonus were not restored during the 2013 salary review. The Committee respects Mr Hambro's decision to lead by example.

In December 2012, the Company Chairman recommended to the Committee that salaries of all the Executive Directors and members of the Executive Committee, with the exception of the Chief Financial Officer, be frozen for 2013. Having duly considered the above factors, the Committee accepted the Company Chairman's recommendation.

Details of annual basic salaries for the Executive Directors are shown in the table below:

B. Performance based annual bonus
The Company has an annual bonus scheme in order to:

– Incentivise staff to achieve the challenging targets set by the Board;
– Strengthen morale;
– Engender loyalty.

Strategic business objectives are set for the Executive Directors and Executive Committee members, achievement of which will ensure the delivery of the Company's short-term strategy, whilst aligning with its long-term strategy and recognising the Group's wider corporate responsibility.

2012 Annual bonus scheme
The objectives applicable for the year ended 31 December 2012 and the performance against them are summarised in the table on pages 99 to 100. This table also identifies how these objectives align with the Company's long-term strategy and reinforce the delivery of the overall business strategy. For 2012, 70% of the bonus was subject to the achievement of Group objectives and 30% was subject to the achievement of personal objectives.

Director	Position	1 January 2012	1 June 2012	1 January 2013	% increase [1]
Peter Hambro	Chairman	£655,000	£555,000	£555,000	-15%
Sergey Ermolenko	Chief Executive Officer	£400,000	£400,000	£400,000	Nil
Andrey Maruta	Chief Financial Officer	£380,000	£380,000	£395,000	4% [2]
Alya Samokhvalova	Strategic Director/ Head of External Communications	£380,000	£380,000	£380,000	Nil
Martin Smith	Deputy Chief Executive	£380,000	£380,000	£380,000	Nil
Total		£2,195,000	£2,095,000	£2,110,000	-3.9%

1 This column details the percentage increase or decrease in basic annual salary as at 1 January 2013 compared with 1 January 2012.

2 Mr Maruta was awarded a salary increase because his responsibilities are broader than that of his predecessor and given the specific demands on his position due to the high inflationary environment within the mining sector and the need for the Group to control escalating costs.

(i) Group objectives (Comprises 70% of Maximum Bonus Payable)	Proportion of Group bonus	Commentary on objectives and outcomes	Performance achieved (% of Group bonus earned)
Measure: Production and costs			
i. Increase in production to 700,000oz of gold or more	23%	2012 Gold Production of 710,400oz. *Continuation of the Company's strategy of strong organic growth. 2012 was the 10th consecutive year of increased gold production.*	23%
ii. Reduction in cost per tonne moved and processed	15%	The unit costs for mining per cubic metre and processing per tonne were essentially unchanged from 2011 levels or have improved at some sites in spite of inflation, due to increased efficiencies, economies of scale and cost control measures – albeit that not all of the challenging targets were achieved.	9%
iii. Deliver budgeted total cash costs for the Group's hard-rock mines	10%	Some targets achieved.	5%
iv. Control of the Company's central administration costs	3%	Achievement of higher than budgeted reduction in central administration costs.	3%
Measure: Development			
Completion and successful commissioning of gold-producing projects at three of the Group's mining operations and on-going delivery of POX Hub project	4%	*In-house development in competitive timeframes fostering sustainable growth.* Successful commissioning of Malomir flotation plant, fourth line at Pioneer, second line at Albyn.	3%
Capital expenditure projects	14%	*Like many of our peers, the Company has been impacted by increased costs on capital expenditure projects due to inflationary pressures.*	2%
Measure: Disposals			
Disposal of non-core assets	2%	*The Group has adopted a strategy to focus on its core projects.* During 2012 the Group sold non-core assets for a total cash consideration of US$34.3 million.	2%
Measure: Management of balance sheet			
Management of net debt, execution of additional finance facilities, management of cash	12%	Strong operating cash flow. Undrawn and committed facilities of US$158 million at 1 January 2013. However, the Group's challenging internal net debt target was not achieved.	4%
Measure: Exploration			
Exploration expenditure to deliver resources to ensure zero depletion whilst not exceeding budget	8%	*Reserves & Resources are essential to the future of the Group.* In 2012, the Group had an addition of c.2Moz of JORC Resources for a cost of c.US$36/oz as a result of its successful exploration programme.	6%
Measure: HSE			
To achieve a Lost Time Injury Frequency Rate for the Group of less than 2.5	4%	*The Group is striving to create an embedded safety culture across its operations with the objective of minimising the risk of accidents and occupational illnesses.* LTI achieved of 2.37.	4%
Measure: Forecasting and communication			
Improved forecasting (internal/external) and communication with shareholders and stakeholders	5%		4%
Total	100%		65%
Total Group bonus earned as a percentage of salary		Executive Chairman Other Executive Directors	68.25% 45.5%

(ii) Personal objectives
(Comprised 30% of maximum bonus payable)

i. Objectives specific to the duties and responsibilities of each Executive.
ii. Three personal objectives were set for each Director, each with equal weighting.
iii. One objective was linked to the management of a risk.
iv. Targets related to: operating efficiencies and cost savings; developing the Group's strategy; successful delivery of projects; financing and external communications.
v. The Committee assessed the satisfaction of personal objectives of each of the Executive Directors and noted that the following bonuses had been earned:

Total bonus earned as a percentage of salary for personal objectives	
Peter Hambro	33%
Sergey Ermolenko	27%
Andrey Maruta	27%
Alya Samokhvalova	25%
Martin Smith	30%

Total 2012 bonus as a percentage of salary (group and personal)	Achieved under scorecard	Approved by the Committee
Peter Hambro	101.25%	91.125%
Sergey Ermolenko	72.5%	65.25%
Andrey Maruta	72.5%	65.25%
Alya Samokhvalova	70.5%	63.45%
Martin Smith	75.5%	67.95%

2012 Bonus outcome and 2013 Annual Bonus
The underlying performance of the business as determined by EBITDA was strong during 2012 despite the challenging environment with the increase in the Group's production and its management of costs being significant contributors. Consequently, the achievement of the annual bonus objectives was solid. However, in determining bonus outcomes for 2012, the Committee noted that shareholders have been impacted by the recent decline in the Company's share price and, following a recommendation from the Company Chairman, determined that the formulaic bonus outcomes that would have been warranted by the scorecard should be reduced by 10%. In general, it is the Committee's intention that the more controllable aspects of management performance be rewarded through the annual bonus, with sensitivity to the share price, and hence direct alignment with shareholders, being reinforced through the share-based LTIP.

In addition to the reduction in the 2012 bonus determined under the formulaic scorecard, the Executive Directors have offered to waive their bonus opportunity for 2013. The Committee is grateful to the Executive Directors for their proposal and in following the lead taken by the Chairman when volunteering a reduction in his salary. The Committee has therefore determined that no 2013 bonus opportunity will be offered, albeit with one exception. The exception is in respect of the Chief Financial Officer who has been awarded a bonus opportunity for 2013 of a maximum of £50,000, payment of which will be subject to the achievement of challenging financial targets, which will be disclosed in the 2013 Directors' Remuneration Report.

C. Long-Term Incentive Plan
The Company continues to operate the Petropavlovsk Long-Term Incentive Plan ("LTIP") which aligns the long-term interests of participants with those of the Company's shareholders. The LTIP provides for the following types of share awards (the "Awards"):

(a) options with an exercise price 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.

At any time, the total number of shares, which have been issued or remain issuable pursuant to grants made over the last ten years under the LTIP and under any other employees' share scheme established by the Company, may not exceed 10% of the shares in issue.

The following table sets out details of Awards made under the LTIP to date and those proposed:

Year	Status
2009	Award made on 25 June 2009. 42.5% of the Award will vest in early April 2013 (page 102)
2010	No Awards were granted
2011	Awards made to Executive Directors, Executive Committee members and 84 senior employees of the Group, the majority of whom are based in Russia (page 104)
2012	Despite the Committee having approved an Award in May 2012 no Award was granted as the Company was in an extended prohibited period, principally in respect of a transaction involving the issue of new shares by IRC
2013	Awards to be made in early April 2013 (page 105)

Performance conditions for outstanding Awards made in 2009 and 2011 together with the proposal for 2013 Awards are detailed below.

Performance conditions

2009 LTIP Awards

Following the end of the performance period on 30 June 2012, the Committee considered the Company's performance against the pre-determined performance conditions. The Committee determined that though the TSR condition was not met, 85% of the operating conditions were satisfied, resulting in the vesting of 42.5% of the total Award. However, no shares subject to the Award vested during 2012, or during 2013 to the date of this report, as the Company was in an extended prohibited period. It is the Committee's intention that this portion of the Award will vest in early April 2013 following the announcement of the Company's 2012 full year results.

Further details of this Award and the performance conditions are provided below.

For awards granted in 2009, performance was 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 and reinforcing the Company's overall strategy.

The tables below detail the targets and the level of vesting

50% of Award subject to: TSR versus a comparator group

% of total Award that would vest	Target to be achieved
Nil	Less than median
25%	Median*
50%	Top decile*

**Vesting will be on a straight-line basis between these levels.*

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.

Achievement:
No shares subject to this Award vested as the Company did not achieve median performance compared with the comparator group.

50% of Award subject to: Operating Conditions

Vesting was dependent on the achievement of the following operating conditions:

The operating conditions, which are fully disclosed below together with details of the achievements, were considered as essential to the delivery of the Group's strategy during the performance period.

i. Acquisition and development of new high-quality resources	*Achievement:* 2010 – acquisition of various licences near to Pioneer and Albyn locations and expansion into new regions. 2011 – exploration and technical work undertaken at Visokoe, Krasnoyarsk allowing the Group to define JORC-compliant Ore Reserves and to significantly improve its mineral resource. 2012 – Positive exploration at Albyn, Pioneer and Pokrovskiy.
ii. Successful construction and development of existing assets	Successful commissioning of various lines at Pioneer, Malomir and Albyn with production achieved.
iii. Meeting and exceeding budget production targets	All targets achieved in 2009, 2011 and H1 2012. Production target not achieved in 2010.
iv. Operating safe and efficient mining operations	Lost Time Injuries and Lost Time Injury Rate decreased during the performance period. The Group's health and safety education programme was expanded during the period. The Group received no legal prosecutions for safety rules violations.
v. Strong operating cost control throughout the business	TCC/oz were kept under control during the performance period despite on-going pressure from input costs, inflation and a strong Rouble.

In addition, vesting of the Performance Share Awards required the Committee to be satisfied that:
– the performance achieved was a genuine reflection of the underlying financial performance of the Group;
In this respect the Committee noted:
EPS increased from $0.27 per share in 2008 to $1.24 in 2011
EBITDA increased from $136m in 2008 to US$597.1m in 2011
Net profit increased from U$23m in 2008 to US$240m in 2011
– the Group has complied in all material respects with regulatory and licence requirements;
Confirmed to the Committee
– the Company has demonstrated good management of shareholder relations.

Comparator Group
Agnico-Eagle Mines Limited, Alamos Gold Inc, AngloGold Ashanti Limited, Atlas Iron Limited, Barrick Gold Corporation, Compañia de Minas Buenaventura S.A.A., Coeur d'Alene Mines Corporation, Eldorado Gold Corporation, Ferrexpo plc, Gindalbie Metals Limited, Gold Fields 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.

Committee decision
Having reviewed all of the facts the Committee agreed that a deduction of 15% of the maximum shares that could vest under the Operating Condition was appropriate. The deduction was made to take account of the failure to meet the Company's production targets in 2010 and a capital project that exceeded budget. 85% of the shares subject to the Operating Conditions target will, therefore, vest equating to 42.5% of the total shares subject to the 2009 LTIP Awards. No shares subject to the TSR performance condition will vest.

As stated above, it is the intention of the Committee that these shares will vest in early April 2013 following the announcement of the Company's 2012 full year results.

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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:

The tables below detail the targets and the level of vesting.

TSR provides alignment with shareholders. The use of relative TSR helps to ensure that the LTIP is not unduly sensitive to uncontrollable factors which impact on the entire sector (e.g. commodity prices).

70% of Award subject to: TSR versus a bespoke mining comparator group

% of total Award that would vest	Target to be achieved
Nil	Less than median
35%	Median*
70%	Top decile*

**Vesting will be on a straight-line basis between these levels.*

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.

30% of Award subject to: TSR versus the FTSE 350 Mining Index

% of total Award that would vest	Target to be achieved
Nil	Less than median
15%	Median*
30%	Median +13.5% p.a.*

**Vesting will be on a straight-line basis between these levels.*

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, Randgold Resources and Trans-Siberian Gold plc.

The contents of the following table and the table on page 110 showing the Executive Chairman and other Directors' remuneration constitute the audited information within this Report.

The Directors' interests under the LTIP are as follows:

Director	Number of Petropavlovsk Ordinary Shares subject to Awards	Normal vesting dates	Awards vesting during the year	Lapsed during the year	Number of Petropavlovsk Ordinary Shares subject to Awards
Peter Hambro	147,083	11 May 2014			147,083
Sergey Ermolenko	17,433[1]	11 May 2014			17,433
Brian Egan [2]	58,333	25 June 2012	24,791	33,542	Nil
	85,798	11 May 2014		85,798	Nil
Martin Smith	41,666	25 June 2012[3]			41,666
	76,605	11 May 2014			76,605
Andrey Maruta	41,666	25 June 2012[3]			41,666
	76,605	11 May 2014			76,605
Alya Samokhvalova	41,666	25 June 2012[3]			41,666
	76,605	11 May 2014			76,605

1 *Mr Sergey Ermolenko's 2011 Award was in respect of £150,000 and was made prior to his appointment as a Director of the Company on 20 December 2011.*

2 *Mr Brian Egan resigned as a Director and as Chief Financial Officer on 13 April 2012. In accordance with the LTIP Rules Mr Egan's LTIP Award made on 25 June 2009 vested following the end of the performance period on 30 June 2012 in respect of 42.5% of the Award representing the portion of the Award that had satisfied the performance conditions as detailed above. As Mr Egan had left the Company he was not subject to the prohibitive period and his Award therefore vested. The market value of the shares on the date of vesting was £3.89. The Award made to Mr Egan on 12 May 2011 lapsed on 13 April 2012 as, at the time of Mr Egan's resignation, the Committee considered it unlikely that the performance conditions subject to the 2011 Award were likely to be met.*

3 *It is the intention that 42.5% of the Award made on 25 June 2009 will vest in April 2013 following the announcement of the Company's 2012 Full Year Results.*

4 *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.*

2013 LTIP Awards

It is the intention of the Committee to grant an LTIP Award in early April 2013 following the announcement of the Company's 2012 full year results.

The Committee has determined, subject to the outcome of the current consultation process with some of the Company's major shareholders, that the performance condition governing the 2013 LTIP Awards will be based 50% on Reserves and Resources and 50% on TSR relative to FTSE 350 mining peers, for the following reasons:

- The Group depends on replenishment of its Reserves and Resources for its future growth and for the long-term success of the Company; and
- TSR performance of the Company compared with its peers helps ensure alignment with shareholders and is easily measured and understood.

Level of vesting

The table below details the targets and the level of vesting.

50% of Award subject to: reserves and resources target		50% 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
Nil	If net mining depletion of 2.0Moz not replenished	Nil	Less than median
25%	If net mining depletion of 2.0Moz replenished*	15%	Median*
50%	If net mining depletion of 2.5Moz or more replenished*	50%	Median +13.5% p.a.*

**Vesting will be on a straight-line basis between these levels.*

5. Total remuneration for each Executive Director

The table below details the total remuneration of the Executive Chairman and other Executive Directors for 2012, consistent with the draft UK regulations on remuneration reporting. It includes a value in respect of 42.5% of the 2009 LTIP Award which would have vested on 30 June 2012, if the Company had not been in an extended prohibited period. The value of the LTIP is based on a share price of £3.25, being the average price of the Company's ordinary shares during the three months ended 26 March 2013, as the last dealing day prior to the date of this report.

Director	Peter Hambro	Sergey Ermolenko	Andrey Maruta	Alya Samokhvalova	Martin Smith
Current salary	£555,000	£400,000	£380,000	£380,000	£380,000
Benefits	–	–	£2,913	£2,126	£5,992
Pension	–	–	£47,500	£47,500	£47,500
Annual bonus	£505,744	£261,000	£247,950	£241,110	£258,210
LTIP	–	–	£57,551	£57,551	£57,551
Total	£1,060,744	£661,000	£735,914	£728,287	£749,253

Potential value of proposed 2013 annual remuneration for each Executive Director

The Executive Directors' total remuneration comprises base salary, annual bonus, LTIP and pension and benefits (except for the Chairman and the Chief Executive Officer). In light of the recent decline in the Company's share price and the Group's net debt level, the Executive Directors have decided to waive their annual bonus opportunities in 2013. However the Committee has decided to award the Chief Financial Officer a maximum bonus opportunity of £50,000 in 2013, which will be subject to the achievement of challenging financial conditions.

The graphs opposite detail the potential value of 2013 annual remuneration for each Executive Director based on the following assumptions:

1. All Executive Directors will participate in the LTIP in 2013, receiving an award in respect of 200% of salary;

2. The value of the Chief Financial Officer's bonus is based on 50% of the maximum payable at Target and 100% at Maximum;

3. The value of the LTIP assumes 40% of the LTIP Award vests at Target and 100% at Maximum (see page 105). The LTIP will be subject to a three year performance period and no shares will therefore vest until the expiry of this period; and

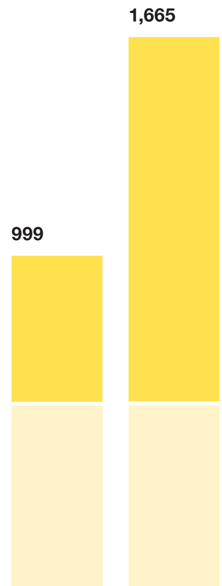
4. The value of the LTIP assumes no increase in the Company's share price over the vesting period.

Potential value of proposed 2013 annual remuneration:

Key

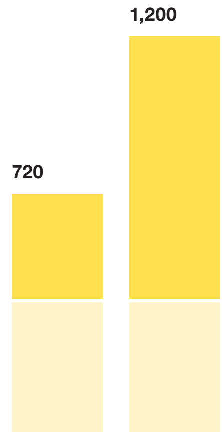
- LTIP
- Annual bonus
- Pension & benefits
- Salary

Chairman (£'000)



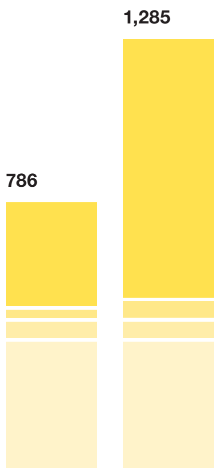
	Target	Maximum
Fixed pay	56%	33%
Variable pay	44%	67%

Chief Executive Officer (£'000)



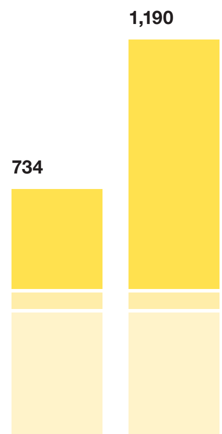
	Target	Maximum
Fixed pay	56%	33%
Variable pay	44%	67%

Chief Financial Officer (£'000)



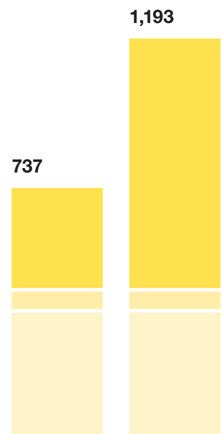
	Target	Maximum
Fixed pay	57%	35%
Variable pay	43%	65%

Strategic Director/Head of External Communications (£'000)



	Target	Maximum
Fixed pay	59%	36%
Variable pay	41%	64%

Deputy Chief Executive (£'000)



	Target	Maximum
Fixed pay	59%	36%
Variable pay	41%	64%

Minimum shareholding guidelines
Alignment with shareholders is facilitated through the Executive Director's remuneration package primarily through the regular grant of share-based LTIP awards the vesting of which is substantially linked to the Company's three-year relative Total Shareholder Return. In addition, the bonus targets agreed by the Board are selected to reinforce the achievement of critical short-term financial, operational and strategic objectives which will help ensure long-term value creation. During 2012, the Committee noted that many other FTSE-listed companies have now introduced specific share ownership policies requiring senior executives to maintain a holding of shares. After discussions, the Committee has decided that such explicit ownership guidelines are not currently appropriate for Petropavlovsk on the basis that:

1. The Executive Chairman holds a significant interest in the Company of 4.62% of issued share capital, and the Chief Executive Officer holds shares valued in excess of 1.5 x salary.
2. The remuneration package sufficiently aligns Executives' interests with those of shareholders without formal ownership guidelines.
3. Executives are bound by the Company's share dealing code which restricts their ability to buy and sell the Company's shares. They are often in possession of price sensitive information which restricts their trading, and this is clearly demonstrated by the recent extended prohibitive period due to the transaction relating to IRC, the Company's Hong Kong listed subsidiary.

The Committee will continue to monitor market trends in this area and will respond as necessary.

Other employees
The majority of the Group's c.15,000 employees are employed at our mining operations within the Amur Region of the Russian Far East. As one of the largest employers in the Amur region, we are committed to offering our employees remuneration that is competitive in the context of the local market.

The Board recognises the importance of all of the Group's employees and considers that it is important to incentivise senior employees throughout the Group. Accordingly, in 2011, Long-Term Incentive Awards were made to 84 senior employees of the Group, the majority of whom are based within Russia. It is the intention that any future LTIP Awards will be granted on a similar basis.

All London based employees are entitled to receive private health insurance and pension arrangements on the same basis as the Executive Directors.

6. 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 Company Chairman. The Board seeks to set fees at a level that will attract the calibre of Non-Executive Directors 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.

Fee levels are reviewed annually by the executive members of the Board. No increases in fees were awarded for the year commencing 1 January 2013. Dr Graham Birch, the Company's Senior Independent Director, and Sir Malcolm Field, Chairman of the Audit Committee and the Remuneration Committee each receives a fee of £94,600. Lord Guthrie, Sir Roderic Lyne, Mr Charles McVeigh, Dr David Humphreys and Ms Rachel English each receives a fee of £92,000 for their services as a Non-Executive Director. Non-Executive Directors receive no other benefits (other than the reimbursement of expenses incurred in respect of their duties as Directors of the Company).

Details of the fees paid to Non-Executive Directors in respect of the year ended 31 December 2012 are set out in the table on page 110 of this report.

7. Service contracts and terms of Directors' appointment

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 permit 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 being limited to the Executive Director's basic salary. The Company has the right to claw back 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.

There are no provisions in any of the current Non-Executive Directors' appointment arrangements for compensation payable on early termination of their directorship. The appointment can be terminated by paying in lieu of the notice period with such pay being limited to the Non-Executive Directors' basic fee.

Directors' letters of appointment and service contracts are available for inspection at the Company's registered office and at the Annual General Meeting.

Re-appointment of Directors
In accordance with the provision in the UK Corporate Governance Code, all eligible Directors will stand for re-appointment or re-election as appropriate, at the Company's forthcoming Annual General Meeting to be held on 11 June 2013.

Notice periods for Directors are as follows:

Executive Directors	Date of contract	Notice period
Peter Hambro	1 September 2009	12 months
Sergey Ermolenko	20 December 2011	12 months
Andrey Maruta	4 January 2011	12 months
Alya Samokhvalova	4 January 2011	12 months
Martin Smith	4 January 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
Rachel English	28 March 2012	3 months

External appointments
The Board believes that the appointment of any Executive Director as a Non-Executive Director of another company can broaden his or her 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.

Table of emoluments
Aggregate Directors' remuneration.

The total amounts for Directors' remuneration were as follows:

	2012 £'000	2012 US$'000	2011 £'000	2011 US$'000
Salary	2,873	4,560	3,188	5,096
Contributions to personal pensions	158	251	167	268
Other benefits	23	37	28	45
Bonus payments	1,564	2,482	3,031	4,846
Termination pay	478	759	–	–
Total	5,096	8,089	6,414	10,255

1 Rates of exchange used: 2012: £0.63:US$1; 2011 £0.625:US$1 (average exchange rate throughout the year).

2 The aggregate remuneration for 2012 and 2011 relates to Directors who were in office during the year.

Directors' Remuneration Report
continued

For the year ended 31 December 2012

The following table sets out an analysis of the Chairman and Directors' remuneration for the year ended 31 December 2012:

	Basic salary/fees £	Annual bonus £	Benefits [8] £	Pension [7] £	Termination pay £	Total 2012 £	Total 2012 US$	Total 2011 £	Total 2011 US$
Executive Directors									
Peter Hambro [1]	596,667	505,744	–	–	–	1,102,411	1,749,857	1,507,584	2,410,325
Sergey Ermolenko [2]	400,000	261,000	–	–	–	661,000	1,049,205	10,959	17,521
Andrey Maruta	380,000	247,950	2,913	47,500	–	678,363	1,076,766	674,741	1,078,776
Alya Samokhvalova	380,000	241,110	2,126	47,500	–	670,736	1,064,659	674,424	1,078,270
Martin Smith	380,000	258,210	5,992	47,500	–	691,702	1,097,939	677,381	1,082,997
Pavel Maslovskiy [3]	–	–	–	–	–	–	–	1,569,190	2,508,820
Brian Egan [4]	110,590	50,000	11,705	15,833	477,500	665,628	1,056,551	772,091	1,234,419
Total Executive Directors	2,247,257	1,564,014	22,736	158,333	477,500	4,469,840	7,094,977	5,886,370	9,411,128
Non-Executive Directors									
Graham Birch	94,600	–	–	–	–	94,600	150,158	89,991	143,877
Sir Malcolm Field	94,600	–	–	–	–	94,600	150,158	90,000	143,892
Lord Guthrie	92,000	–	–	–	–	92,000	146,032	87,550	139,975
Sir Roderic Lyne	92,000	–	–	–	–	92,000	146,032	87,550	139,975
Charles McVeigh	92,000	–	–	–	–	92,000	146,032	87,550	139,975
David Humphreys	92,000	–	–	–	–	92,000	146,032	34,204	54,685
Rachel English [5]	68,489	–	–	–	–	68,489	108,712	–	–
Peter Hill-Wood [6]	–	–	–	–	–	–	–	51,042	81,605
Total Non-Executive Directors	625,689	–	–	–	–	625,689	993,156	527,887	843,984
Total	2,872,946	1,564,014	22,736	158,333	477,500	5,095,529	8,088,133	6,414,257	10,255,112

Rates of exchange used: 2013:£0.63: US$1:£0.625:US$1 (average exchange rate throughout the year).

1 *Mr Hambro took a voluntary reduction in annual basic salary of £100,000, reducing his salary from £655,000 to £555,000 with effect from 1 June 2012.*

2 *Mr Ermolenko was appointed as Chief Executive Officer and as a Director of the Company on 20 December 2011. The remuneration disclosed in the above table for 2011 relates to the period 20 December 2011 to 31 December 2011.*

3 *Dr Maslovskiy resigned as Chief Executive and a Director of the Company on 20 December 2011. Remuneration disclosed in the above table for 2011 also includes the sum of £61,606 (US$98,496) in respect of the fee payable to Dr Maslovskiy in respect of his non-executive directorship of IRC Limited. Dr Maslovskiy received no compensation from the Company upon his resignation as a Director of the Company. Following his resignation as a Director, Dr Maslovskiy was appointed as Honorary President of the Company and continues to provide valuable advice to the Company for which he is paid no fee.*

4 *Mr Egan resigned as a Director and as Chief Financial Officer on 13 April 2012. In accordance with the terms of his service agreement, Mr Egan received a payment of £380,000 in respect of one year's annual basic salary. In addition, he received a further payment amounting to £97,500, £52,500 of which was paid in relation to his outstanding contractual entitlements and the balance in respect of the discharge of other legal obligations. Mr Egan assisted the Company with historical matters relating to non-UK issues for a four month period following his resignation ensuring a smooth handover with Mr Maruta and ensuring that the Company could continue to have access to his knowledge of the Group. During this period, Mr Egan received a fee of £12,000 per month.*

5 *Ms Rachel English was appointed as a Director on 28 March 2012. The remuneration disclosed in the table above relates to the period 28 March 2012 to 31 December 2012.*

6 *Mr Peter Hill-Wood retired as a Director on 19 May 2011. The remuneration disclosed in the table above relates to the period 1 January 2011 to 19 May 2011.*

7 *Pension contributions were paid into a defined contribution scheme.*

8 *Includes the following benefits in the table opposite.*

	Accommodation £	Medical insurance £	Total £
Brian Egan	3,492	8,213	11,705
Alya Samokhvalova	–	2,126	2,126
Andrey Maruta	–	2,913	2,913
Martin Smith	–	5,992	5,992
Total	3,492	19,244	22,736

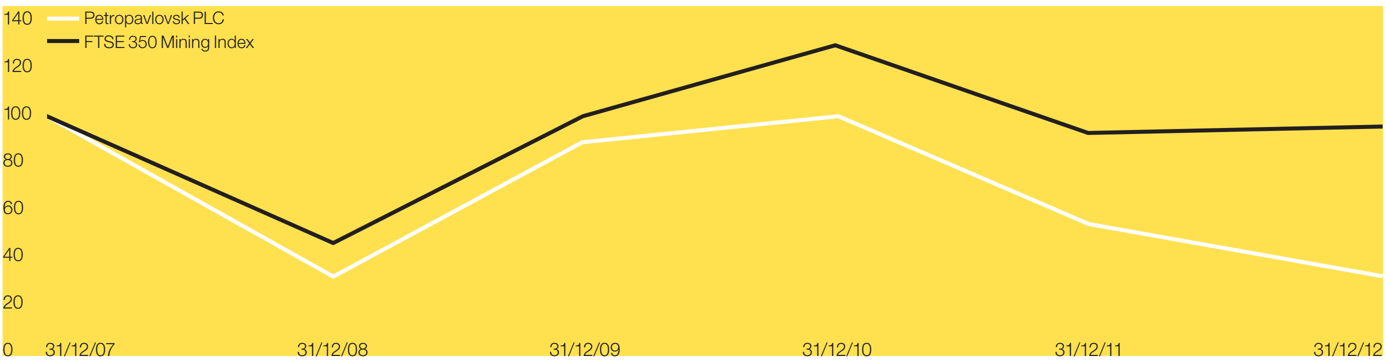
Directors' share interests
The interests of Directors who held office during the period 1 January 2012 to 31 December 212 in the Ordinary Shares of the Company are set out in the Directors' Report on page 81.

8. Performance comparator graph
This Report includes the graph below illustrating the Company's performance relative to the FTSE350 Mining Index, as shown below. The Board considers the FTSE350 Mining Index to be an appropriate index for comparison as the constituents represent the UK-listed mining sector.

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

Sir Malcolm Field
Remuneration Committee Chairman
27 March 2013

Shareholder return on £100 invested on 31 December 2007



Audit Committee Report

For the year ended 31 December 2012

Dear Shareholder
As Chairman of the Audit Committee (the "Committee"), I am pleased to introduce the Committee's report for 2012.

During recent years, the business has grown from a single-mine operation to a complex multi-mine Group, with a successful record of developing its projects in-house. The Board is committed to growing the business further by continuing with the Group's active exploration programme at or near to its existing processing facilities and through the construction and continued development of the POX Hub in order to deliver strong growth.

The Board recognises that this necessitates a sophisticated and robust control framework and it is the role of the Committee together with the Board and the Risk Committee to ensure that the Group's governance, risk management and financial reporting processes continue to evolve and can provide the requisite assurance framework. This Report details the work undertaken by the Committee during the year to ensure that the Group maintains sound internal control systems and can ensure the integrity of its financial statements. The Committee is satisfied that the Board maintains satisfactory internal controls.

This year's Annual General Meeting of the Company will be held on 11 June 2013 during which I will be pleased to answer any questions about the work of the Committee.

Sir Malcolm Field
Audit Committee Chairman
27 March 2013

Governance processes
The members of the Audit Committee during the year were Sir Malcolm Field (Chairman of the Committee), Dr Graham Birch and Mr Charles McVeigh. Ms Rachel English was appointed as a member of the Committee on 28 March 2012. Ms English is a chartered accountant, having qualified with Coopers & Lybrand, and is considered by the Company as having the requisite recent and relevant financial experience. She also brings a wealth of experience to the Committee, including specialist expertise in investment appraisal and project finance.

Sir Malcolm Field and Mr Charles McVeigh are also considered by the Company as being members with requisite recent and relevant financial experience due to their past employment 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 a broad level of mining expertise to the Committee's deliberations.

The Committee met four times during the year, with meetings scheduled to coincide with the Group's financial reporting and audit cycle. These were also attended, by invitation for all or part of the meeting, by the Company's Chairman, the Chief Executive Officer, the Chief Financial Officer, the Internal Auditor and Group Head Financial Reporting. The external auditor was present at each meeting enabling the Committee to understand better the factors relevant to the auditors when exercising their professional judgement. The audit partner briefs the Chairman on key matters in advance of the meetings. The Chairman also meets on a regular basis with the Company Chairman and the Chief Financial Officer to discuss any issues. Following each meeting, the Committee Chairman reports the findings of the meeting to the Board, focusing on matters where the Committee considers that action or improvement is required; making recommendations as appropriate. The Company Secretary acts as Secretary to the Committee.

The Committee works closely with the Company's Risk Committee, identifying financial risks and developing mechanisms for avoiding or mitigating these risks.

Deloitte LLP ("Deloitte") has been the external auditor since the Company's merger with Aricom plc and its move to the Main Board of the London Stock Exchange in April 2009. The Committee has noted the corporate governance developments during the year including the new provisions on audit tendering. The Committee notes that it will be required to tender the audit prior to 2019 but does not consider it necessary to undertake a tender process for the Group's external auditor at the current time. These developments will be monitored and, until a decision is made to tender the audit, the Committee will evaluate the performance of Deloitte, as the Company's external auditor, each year.

Summary of activities undertaken by the Committee during the year and focus for 2013:

Financial reporting

At its meeting in March 2012, the Committee reviewed the 2011 Annual Report and financial statements for the year-ended 31 December 2011 and the related full year announcement before recommending them to the Board for approval. The Committee considered the consistency of the accounting policies adopted and the application of accounting standards, discussing any issues with executive management and the external auditor. Particular areas of focus for the Committee were:

- The carrying value and impairment testing of the Group's mining assets;
- The measurement and valuation of inventory including:
  - (i) Deferred stripping; and
  - (ii) Stockpiles.
- The valuation of the Group's exploration and evaluation assets;
- The going concern basis for preparing the accounts.

At its August meeting, the Committee reviewed the 2012 half year accounts prior to recommending them to the Board for approval. During this process, the Committee sought to ensure that issues raised by Deloitte during the 2011 year-end audit had been progressed and these matters continue to be monitored by the Committee at each meeting with progress tracked. Actions include the development of more sophisticated IT and treasury strategies to accommodate expected growth of the Group. This is a continuation of the work of the Committee detailed in the 2011 Report to improve the Group's controls, and enhance the flow and quality of information provided to executive management and the Board. This continues to be of enhanced focus for the Committee.

In October, the Committee considered, amongst other matters, the 2012 audit plan presented by Deloitte and in December, the Committee received a report from Deloitte on the nine month interim audit. For the first time this included a report from a South African firm of mining experts, who had been appointed by the external auditor to assist them with certain aspects of the year-end audit. This included procedures in respect of deferred stripping, gold in circuit, the Group's long-term mining plan and stockpiles. The additional assessment by the mining experts adds further rigour into the Group's year-end audit process, providing valued assurance to the Committee.

Internal audit

Following the resignation of the Group Head of Internal Audit in 2011, to accept another position and pursue his career, the Committee took the opportunity to review the structure of the Group's internal audit function to ensure that it was adequately resourced, relevant to the size, complexity of the Group and provides the required level of assurance to the Committee. The Committee also considered whether to outsource the internal audit function and following consideration with the executive management concluded that it was appropriate to retain an in-house internal audit function. As a consequence a selection and recruitment process was undertaken and a new Group Head of Internal Audit was appointed during the year.

The Group Head of Internal Audit attends each Committee meeting and has a direct reporting line to the Chairman of the Committee. The Committee has approved additional resource for the internal audit function, which it considers appropriate given the recent growth of the Group.

During the year, the Committee received presentations by the Group Head of Internal Audit; these will now form a standing item on the agenda for all future Committee meetings.

In 2012, the internal audit function completed reviews of inventory and expenditures, fixed assets and treasury, with assistance provided to the executive on other matters, as required. The 2013 internal audit plan, which has been approved by the Committee, will include an audit of key business processes at both the sites and management companies.

External auditor

The Committee monitors the Group's policy on external audit which includes assessing the objectivity, independence and effectives of the Company's external auditors. During the year this included:

1. Reviewing Deloitte's fulfilment of the agreed audit plan for the year ending 31 December 2011, the quality of their audit findings and management's response;
2. Reviewing Deloitte's proposed audit fee for the 2012 interim and year-end audits and, after consideration, recommending these to the Board for approval;

Audit Committee Report
continued

For the year ended 31 December 2012

3. Considering Deloitte's publication entitled "Briefing on audit matters" published in September 2012 which explains the key concepts behind the Deloitte Audit methodology including audit objectives and materiality;
4. Reviewing Deloitte's "2012 Audit Transparency Report' in respect of the year ended 31 May 2012. This sets out Deloitte's approach to ensuring audit quality, robust governance and ethics, by reference to the Professional Oversight Board of the Financial Reporting Council; and
5. Reviewing and monitoring the performance and effectiveness of Deloitte against the 2012 year-end planning report.

In addition, the Committee meets separately on a regular basis with the auditors, without management being present.

The Committee also approved the appointment of Deloitte as reporting accountants on the proposed issue of shares by IRC, the Company's 63.13% owned Hong Kong Listed subsidiary. The proposed transaction was announced on 17 January 2013 and following the issue of a Circular to Shareholders on 18 February 2013, was approved by shareholders at a general meeting held on 7 March 2013. The fees payable to Deloitte in this respect during 2012 were US$570,000. Deloitte's appointment as reporting accountants was in accordance with the Company's policy on the provision of audit and non-audit services, a copy of which can be located on the Company's website or obtained from the Company Secretary. The Committee approved the appointment on the basis that it was in accordance with the Company's policy and that Deloitte would be the most appropriate firm to prepare the requisite working capital report within the time available and for a reasonable fee given their detailed knowledge of the Group, including IRC, of whom they are also the external auditor. This work is typically performed by the external auditor. Accordingly, in the opinion of the Committee, the independence and objectivity of Deloitte as external auditors to the Company, has not been impaired by their work in this respect.

A breakdown of non-audit fees paid in 2012 is set out in note 7 on page 143 of this Annual Report.

Having considered the above issues, the Committee is satisfied that Deloitte remain independent and objective and that they remain effective in their duties. The Committee has therefore recommended their re-appointment as external auditor of the Company to the Board.

Assurance – financial and internal controls and risk management

The Committee operates within the following assurance framework established by the Board. 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. Following this review, the Committee considers the internal controls of the Group to have operated effectively throughout 2012 and up to the date of this report. 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 IRC's 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 prospects.

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 on a regular basis.

Some key features of the internal control system are:

– A defined management structure with clear accountabilities. There is a clear 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 copy of which is provided to the Board following this review;

– Appropriate segregation of duties throughout the Group, in particular separating the purchasing and ordering function from the processing and payments function;

– A centrally directed treasury function which manages the Company's cash and debt on a daily basis;

– A Group internal audit function performing a programme of audits throughout the year;

– Review of Group-wide risks by the Executive Committee and financial risks by the Audit Committee. These Committees report through to the Risk Committee on all significant risks for their consideration;

– Specific approval procedures have been established for approval of all related party transactions. A Committee of independent Non-Executive Directors approves all significant related party transactions as appropriate and a schedule of all of these transactions is presented to the Board for formal approval; and

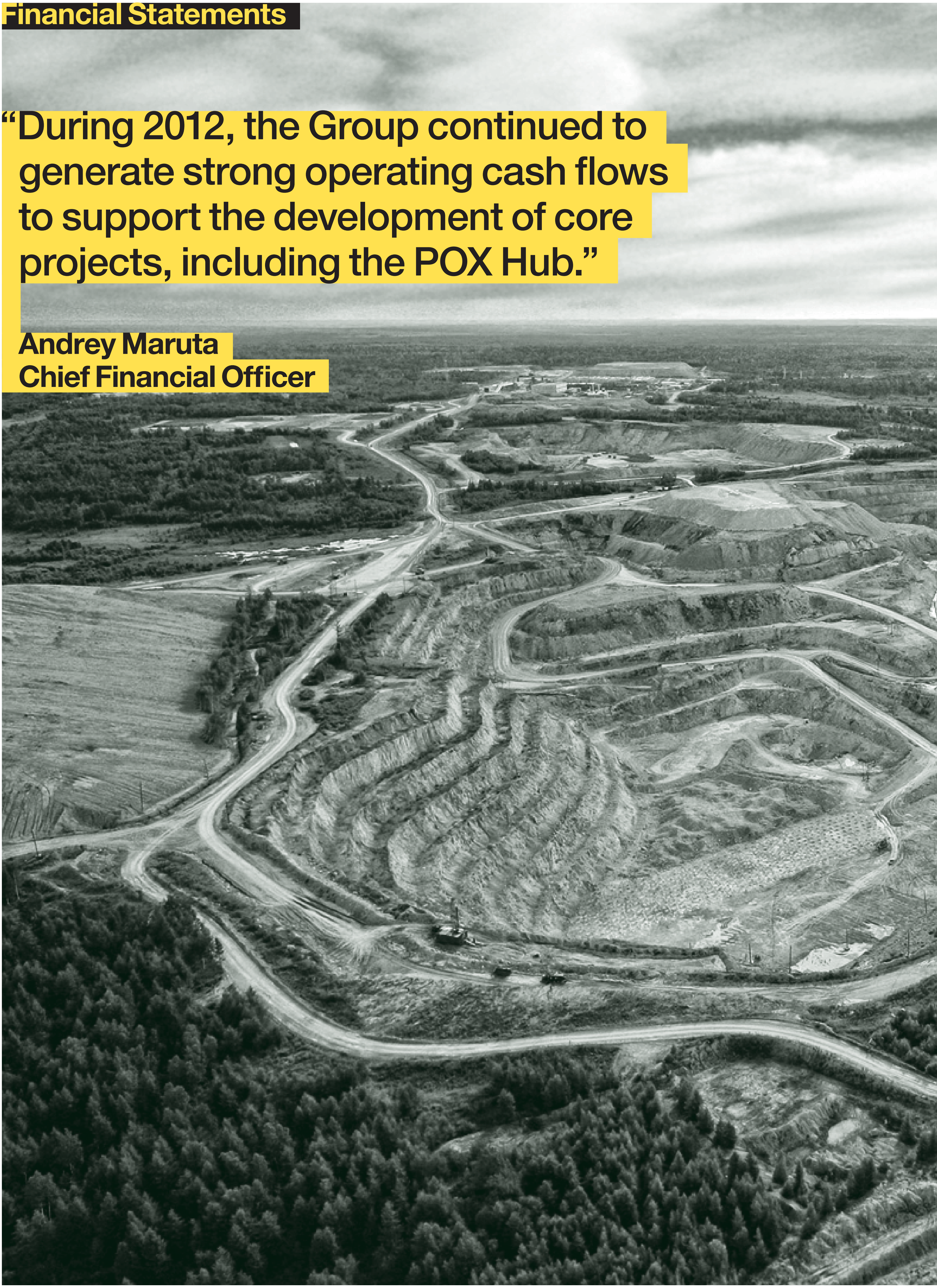
– The approval of the Audit Committee is sought to all key judgements made in preparation of the interim and annual accounts.

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 Committee having responsibility for on-going risk review and management. The Board has delegated authority to the Risk Committee. The Committee retains responsibility for reviewing financial risks, reporting its findings and recommendations to the Risk Committee. The Report of the Risk Committee which summarises the risk management framework, together with details of the principal risks of the Group, is on pages 66 to 77 of this Report.

Overview
As a result of the Committee's work during the year, the Committee has concluded that it has acted in accordance with its terms of reference.

"During 2012, the Group continued to generate strong operating cash flows to support the development of core projects, including the POX Hub."

Andrey Maruta
Chief Financial Officer



The Pokrovskiy mine
The Group's first mine which has produced more than 1.75Moz of gold to date. Pokrovskiy is drawing to the end of its mine life but is being converted into the POX Hub.

Statement of Directors' Responsibilities

For the year ended 31 December 2012

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 2013

Andrey Maruta
Chief Financial Officer
27 March 2013

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2012

We have audited the financial statements of Petropavlovsk PLC for the year ended 31 December 2012 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 37, 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 2012 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 2013

Consolidated Income Statement

For the year ended 31 December 2012

	note	2012 Before exceptional items US$'000	2012 Exceptional items US$'000	2012 Total US$'000	2011 Before exceptional items US$'000	2011 Exceptional items US$'000	2011 Total US$'000
Group revenue	5	1,375,174	–	1,375,174	1,262,490	–	1,262,490
Operating expenses	6	(1,145,727)	(345,246)	(1,490,973)	(863,335)	2,432	(860,903)
		229,447	(345,246)	(115,799)	399,155	2,432	401,587
Share of results of joint ventures		(2,338)	–	(2,338)	(1,360)	–	(1,360)
Share of results of associates		(81)	–	(81)	–	–	–
Operating profit/(loss)		227,028	(345,246)	(118,218)	397,795	2,432	400,227
Investment income	9	2,121	–	2,121	3,119	–	3,119
Interest expense	9	(74,991)	–	(74,991)	(39,641)	–	(39,641)
Other finance losses	9	(13,581)	–	(13,581)	(2,381)	–	(2,381)
Profit/(loss) before taxation		140,577	(345,246)	(204,669)	358,892	2,432	361,324
Taxation	10	(48,124)	8,845	(39,279)	(120,835)	–	(120,835)
Profit/(loss) for the period		92,453	(336,401)	(243,948)	238,057	2,432	240,489
Attributable to:							
Equity shareholders of Petropavlovsk PLC		98,771	(258,429)	(159,658)	228,453	2,432	230,885
Non-controlling interests		(6,318)	(77,972)	(84,290)	9,604	–	9,604
		92,453	(336,401)	(243,948)	238,057	2,432	240,489
Earnings/(loss) per share							
Basic	11	US$0.54	(US$1.39)	(US$0.85)	US$1.23	US$0.01	US$1.24
Diluted	11	US$0.54	(US$1.39)	(US$0.85)	US$1.22	US$0.01	US$1.23

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 US$'000	2011 US$'000
(Loss)/profit for the period	(243,948)	240,489
Other comprehensive income and expense:		
Revaluation of available-for-sale investments	(298)	(1,941)
Exchange differences on translating foreign operations	3,516	(3,603)
Other comprehensive income/(expense) for the period	3,218	(5,544)
Total comprehensive (expense)/income for the period	(240,730)	234,945
Attributable to:		
Equity shareholders of Petropavlovsk PLC	(156,729)	225,617
Non-controlling interests	(84,001)	9,328

Consolidated Balance Sheet

For the year ended 31 December 2012

	note	2012 US$'000	2011 US$'000
Assets			
Non-current assets			
Goodwill	13	21,675	21,675
Intangible assets	14	189,555	334,737
Property, plant and equipment	15	1,606,466	1,865,612
Prepayments for property, plant and equipment		20,588	207,101
Investments in associates		8,246	–
Interests in joint ventures		–	7,086
Available-for-sale investments		255	561
Inventories	16	66,204	43,187
Other non-current assets		904	37,871
Deferred tax assets	21	1,373	2,562
		1,915,266	2,520,392
Current assets			
Inventories	16	345,992	330,660
Trade and other receivables	17	189,261	208,977
Cash and cash equivalents	18	159,226	213,556
		694,479	753,193
Assets classified as held for sale	28	717,955	–
		1,412,434	753,193
Total assets		3,327,700	3,273,585
Liabilities			
Current liabilities			
Trade and other payables	19	(145,798)	(134,904)
Current income tax payable		(12,365)	(12,923)
Borrowings	20	(83,789)	(216,430)
		(241,952)	(364,257)
Liabilities associated with assets classified as held for sale	28	(179,639)	–
		(421,591)	(364,257)
Net current assets		990,843	388,936
Non-current liabilities			
Borrowings	20	(1,138,732)	(790,408)
Deferred tax liabilities	21	(77,286)	(176,031)
Provision for close down and restoration costs	22	(33,978)	(34,958)
		(1,249,996)	(1,001,397)
Total liabilities		(1,671,587)	(1,365,654)
Net assets		1,656,113	1,907,931
Equity			
Share capital	23	2,891	2,891
Share premium		377,140	377,140
Merger reserve		130,011	331,704
Own shares	24	(10,196)	(10,444)
Convertible bond reserve	20	59,032	59,032
Share based payments reserve		24,015	13,703
Other reserves		4,341	1,412
Retained earnings		853,619	857,378
Equity attributable to the shareholders of Petropavlovsk PLC		1,440,853	1,632,816
Non-controlling interests		215,260	275,115
Total equity		1,656,113	1,907,931

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 27 March 2013 and signed on their behalf by:

Peter Hambro
Director

Andrey Maruta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

		Total attributable to equity holders of Petropavlovsk PLC										
	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
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/(expense) for the period		–	–	–	–	–	–	(5,268)	230,885	225,617	9,328	234,945
Dividends		–	–	–	–	–	–	–	(36,856)	(36,856)	–	(36,856)
Share based payments		–	–	–	–	–	10,857	–	–	10,857	–	10,857
Vesting of awards within Petropavlovsk PLC LTIP		–	–	–	231	–	(294)	–	63	–	–	–
Other transaction with non-controlling interests		–	–	–	–	–	–	–	1,545	1,545	(1,508)	37
Transfer to retained earnings [(a)]		–	–	(238,367)	–	–	–	–	238,367	–	–	–
Balance at 1 January 2012		2,891	377,140	331,704	(10,444)	59,032	13,703	1,412	857,378	1,632,816	275,115	1,907,931
Total comprehensive income/(expense) for the period		–	–	–	–	–	–	2,929	(159,658)	(156,729)	(84,001)	(240,730)
Dividends	12	–	–	–	–	–	–	–	(35,022)	(35,022)	–	(35,022)
Share based payments	30	–	–	–	–	–	10,625	–	496	11,121	–	11,121
Vesting of awards within Petropavlovsk PLC LTIP		–	–	–	248	–	(313)	–	65	–	–	–
Issue of ordinary shares by subsidiary		–	–	–	–	–	–	–	(11,333)	(11,333)	24,388	13,055
Disposal of share of subsidiaries		–	–	–	–	–	–	–	–	–	(6,750)	(6,750)
Acquisition of shares of subsidiaries		–	–	–	–	–	–	–	–	–	6,508	6,508
Transfer to retained earnings [(a)]		–	–	(201,693)	–	–	–	–	201,693	–	–	–
Balance at 31 December 2012		2,891	377,140	130,011	(10,196)	59,032	24,015	4,341	853,619	1,440,853	215,260	1,656,113

(a) Arises from an adjustment to the book value of the investment in the Company financial statements to reflect changes in the value of the Group's investment in IRC Limited (note 28).

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	note	2012 US$'000	2011 US$'000
Cash flows from operating activities			
Cash generated from operations	25	410,236	356,287
Interest paid		(71,329)	(36,839)
Income tax paid		(67,003)	(60,022)
Net cash from operating activities		271,904	259,426
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired		920	(11,935)
Acquisitions of non-controlling interests		–	(2,250)
Proceeds from disposal of subsidiaries, net of liabilities settled	29	7,725	–
Proceeds from disposal of the Group's interests in joint ventures and available-for-sale investments		508	10,000
Purchase of property, plant and equipment and exploration expenditure		(620,875)	(801,062)
Proceeds from disposal of property, plant and equipment		1,968	1,407
Investments in joint ventures and associates			(616)
Loans granted		(304)	(121)
Repayment of amounts loaned to other parties		87	2,389
Interest received		2,701	1,701
Net cash used in investing activities		(607,270)	(800,487)
Cash flows from financing activities			
Proceeds from borrowings		639,853	658,081
Repayments of borrowings		(308,681)	(155,646)
Restricted bank deposit placed in connection with ICBC facility		–	(6,000)
Debt transaction costs paid in connection with ICBC facility		(1,500)	(25,889)
Dividends paid to shareholders of Petropavlovsk PLC		(35,213)	(36,309)
Dividends paid to non-controlling interests		(13)	(548)
Net cash from financing activities		294,446	433,689
Net decrease in cash and cash equivalents in the period		(40,920)	(107,372)
Effect of exchange rates on cash and cash equivalents		4,626	(58)
Cash and cash equivalents at beginning of period		213,556	320,986
Cash and cash equivalents re-classified as assets held for sale	28	(18,036)	–
Cash and cash equivalents at end of period		159,226	213,556

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. General information

Petropavlovsk PLC (the "Company") is a company incorporated 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 ongoing 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.

In a declining gold price environment, the Group may be exposed to breaches of certain financial covenants. As part of a number of alternatives to proactively address this risk, the Group has entered into financing contracts to secure the average realised gold price for a total of 399,000oz of gold over the period of 14 months ending in March 2014 at the level of US$1,663/oz (note 35) and negotiated the investment in IRC Limited (note 35) which will have the impact of deconsolidating IRC Limited and its subsidiaries ("IRC") and its debt.

Taking into account the aforementioned and further mitigating actions that the Group could take in the event of adverse changes, the Group expects to be able to operate within the level of its secured facilities for the subsequent 12 months from the date of approval of the 2012 Annual Report and Accounts.

Accordingly, 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 2013 and not early adopted are set out below.

	Effective for annual periods beginning on or after
IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"	1 January 2013
IFRS 1 "First-time Adoption of International Financial Reporting Standards"	1 January 2013
IFRS 7 "Financial Instruments: Disclosures" – amendment	1 January 2013
IFRS 10 "Consolidated Financial Statements"	1 January 2013
IFRS 11 "Joint Arrangements"	1 January 2013
IFRS 12 "Disclosure of Interests in Other Entities"	1 January 2013
IFRS 13 "Fair Value Measurement"	1 January 2013
IAS 19 "Employee Benefits" – amendment	1 January 2013
IAS 27 "Separate Financial Statements" – amendment	1 January 2013
IAS 28 "Investments in Associates and Joint Ventures" – amendment	1 January 2013
IAS 34 "Interim Financial Reporting" – amendment	1 January 2013
IAS 32 "Financial Instruments: Presentation" – amendment	1 January 2014
IFRS 9 "Financial Instruments"	1 January 2015

2. Significant accounting policies 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 set out below:

- 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.

The Directors are assessing the impact of the standards above.

2.3. 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.

2.4. 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 are 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.

2.5. 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 value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.6. 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.

2.7. 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 venturer 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.

2.8. 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.

2.9. Non-current assets held for sale
Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

2. Significant accounting policies continued

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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.

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.

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 2012	Average year ended 31 December 2012	As at 31 December 2011	Average year ended 31 December 2011
GB Pounds Sterling (GBP : US$)	0.62	0.63	0.65	0.62
Russian Rouble (RUR : US$)	30.37	31.07	32.20	29.39

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.

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

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.

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.

In gold alluvial operations, stripping activity is sometimes undertaken in preparation for the next season. Stripping costs are then deferred as part of cost of inventory and are written off to the income statement in the following year to match related production.

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.

2. Significant accounting policies continued

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.

Derivative financial instruments
In accordance with IAS 39 the fair value of all derivatives is separately recorded on the balance sheet. Derivatives are 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 include the following major categories:

– Stores and spares represent raw materials consumed in the production process as well as spare parts and other maintenance supplies;
– Construction materials represent materials for use in capital construction and mine development;
– Ore in stockpiles represent material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore in stockpiles is valued at the average cost per tonne of mining and stockpiling the ore. Quantities of ore in stockpiles ore are assessed through surveys and assays. Ore in stockpiles is classified between current and non-current inventory based on the expected processing schedule in accordance with the Group's mining plan;
– Work in progress inventory primarily represent gold in processing circuit that has not completed the production process. Work in progress inventory is valued at the average production costs;
– Deferred stripping costs are included in inventories where appropriate, as set out in note 2.15.

Inventories are valued at the lower of cost and net realisable value, with cost being determined primarily on a weighted average cost basis.

Provisions are recorded to reduce ore in stockpiles, work in process and finished goods inventory to net realisable value where the net realisable value is lower than relevant inventory cost at the balance sheet date. Net realisable value is determined with reference to relevant market prices less estimated costs to complete production and bring the inventory into its saleable form. Provisions are also recorded to reduce mine operating supplies to net realisable value, which is generally determined with reference to salvage or scrap value, when it is determined that the supplies are obsolete. Provisions are reversed to reflect subsequent recoveries in net realisable value where the inventory is still on hand at the balance sheet date.

2. Significant accounting policies continued

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 a 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 (the "EBT"). 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 (2004)), adjusted to conform with the mining activity to be undertaken under the Group mining plan. The JORC Code (2004) requires the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

3. Areas of judgement in applying accounting policies and key sources of estimation uncertainty continued

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 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$1,680/oz for the long-term gold price;
- A long-term exchange rate of 31.5 RUR:US$;
- 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 10.8% for precious metals mining projects.

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 would result in impairment of certain mining assets within precious metals segment as set out below.

	Potential impairment
5% reduction in the long-term gold price	Recoverable amount exceeds carrying amount
10% reduction in the long-term gold price	US$50 million
15% reduction in the long-term gold price	US$200 million

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 realisation 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 and Cyprus. 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 ongoing 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.

3.8 Measurement of assets held for sale at fair value less costs to sell

IRC has been classified as "held for sale" and presented separately in the consolidated balance sheet as at 31 December 2012 (notes 28 and 35). The carrying value of IRC's net assets has been adjusted to fair value less estimated transaction costs, based on IRC's share price of HK$1.17 as at 31 December 2012 which the Directors consider to be the best measure of fair value. Subsequent to 31 December 2012, the IRC share price has traded between HK$0.87 and HK$1.45. Assuming total investment completion occurs, the Group's interest in the share capital of IRC Limited would be diluted from 63.13% held at 31 December 2012 (note 37) to 40.43% and IRC would become an associate to the Group. The carrying value of IRC will be adjusted based on its market share price on that date which will be the basis for valuation of the Group's share in IRC. Subsequent to that, IRC will be accounted for using the equity method of accounting taking into consideration the Group's share in IRC's results and subject to any impairment.

4. Segment information

Business segments

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, BolshoySeim, Kostenginskoye and Garinskoye Flanks projects), engineering and scientific operations represented by Giproduda, 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, the engineering and scientific operations represented by PHM Engineering and Irgiredmet and other supporting in-house functions as well as procurement of materials such as reagents and consumables and equipment for third parties undertaken by Irgiredmet.

4. Segment information continued

2012	Precious metals US$'000	IRC US$'000	Other US$'000	Consolidated US$'000
Revenue				
Gold	1,173,985	–	–	1,173,985
Silver	7,770	–	–	7,770
Iron ore concentrate and ilmenite	–	128,466	–	128,466
Other external revenue	1,174	11,221	52,558	64,953
Inter-segment revenue	1,393	–	431,606	432,999
Intra-group eliminations	(1,393)	–	(431,606)	(432,999)
Total Group revenue from external customers	1,182,929	139,687	52,558	1,375,174
Net operating expenses	(1,003,992)	(356,630)	(51,696)	(1,412,318)
including				
Depreciation and amortisation	(213,584)	(15,064)	(1,792)	(230,440)
Impairment	(139,206)	(218,844)	–	(358,050)
Share of results of associates	(81)	–	–	(81)
Share of results of joint ventures	–	(2,338)	–	(2,338)
Segment result	178,856	(219,281)	862	(39,563)
Before exceptional items	306,578	(437)	(458)	305,683
Exceptional items [(a)]	(127,722)	(218,844)	1,320	(345,246)
Central administration [(b)]				(86,688)
Foreign exchange gains				8,033
Operating profit				(118,218)
Investment income				2,121
Interest expense				(74,991)
Other finance losses				(13,581)
Taxation				(39,279)
Profit for the period				(243,948)
Segment Assets	2,328,057	717,955	243,205	3,289,217
Segment Liabilities	(116,926)	(179,639)	(75,215)	(371,780)
Goodwill [(c)]				21,675
Deferred tax – net				(75,913)
Unallocated cash				13,574
Loans given				1,861
Borrowings				(1,222,521)
Net Assets				1,656,113
Other segment information				
Additions to non-current assets:				
Exploration and evaluation expenditure capitalised within intangible assets	41,606	1,369	–	42,975
Acquisition of mining rights within intangible assets	–	19,578	–	19,578
Other additions to intangible assets	3,919	–	–	3,919
Capital expenditure	536,282	60,379	23,168	619,829
Other items capitalised	13,503	12,689	–	26,192
Average number of employees	7,630	2,229	5,035	14,894

(a) See note 6.

(b) Including US$26 million central administration expenses of IRC.

(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).

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 sales	–	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 of 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 (d)	1,439 (d)	–	13,475
Central administration (e)				(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 (f)				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

(d) See note 6.

(e) Including US$23 million central administration expenses of IRC.

(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)]

	2012 US$'000	2011 US$'000
Russia and CIS	1,246,433	1,151,929
China	128,466	110,388
Other	275	173
	1,375,174	1,262,490

(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)]

	2012 US$'000	2011 US$'000
Russian	1,893,284	2,480,102
China	–	7,765
Other	19,450	11,220
	1,912,734	2,499,087

(b) Excluding financial instruments and deferred tax assets.

Information about major customers

During the years ended 31 December 2012 and 2011, the Group generated revenues from the sales of gold to a number of financial institutions, namely, to Russian banks for Russian 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 2012 are revenues of US$1,119 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$568 million to Sberbank of Russia, US$551 million to VTB (2011: 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). 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

	2012 US$'000	2011 US$'000
Sales of goods	1,342,500	1,236,446
Rendering of services	30,106	23,469
Rental income	2,568	2,575
	1,375,174	1,262,490
Investment income	2,121	3,119
	1,377,295	1,265,609

6. Operating expenses and income

	2012			2011		
	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) [(a)]	1,027,829	–	1,027,829	718,483	–	718,483
Impairment charges [(a)]	10,049	120,455	130,504	42,078	–	42,078
Impairment of ore stockpiles	29,692	–	29,692	–	–	–
Impairment of non-trading loans	–	–	–	–	14,241	14,241
Central administration expenses [(a)]	86,688	–	86,688	92,941	(3,198)	89,743
Foreign exchange (gains)/losses	(8,033)	–	(8,033)	9,833	–	9,833
Loss on disposal of subsidiaries [(b)]	–	26,937	26,937	–	–	–
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell [(c)]	–	197,854	197,854	–	–	–
Gain on disposal of Group's interest in joint ventures and available-for-sale investments	(498)	–	(498)	–	(12,036)	(12,036)
Net gain on acquisition of Jiatai Titanium	–	–	–	–	(1,439)	(1,439)
	1,145,727	345,246	1,490,973	863,335	(2,432)	860,903

(a) As set out below.
(b) Note 29.
(c) Note 28.

Net operating expenses

	2012 US$'000	2011 US$'000
Depreciation	230,440	132,202
Staff costs	217,987	170,499
Materials	201,069	132,820
Fuel	114,214	73,343
External services	122,746	97,382
Royalties	72,044	67,599
Electricity	45,800	34,727
Shipping costs	48,147	33,704
Smelting and transportation costs	5,838	5,944
Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production	(111,768)	(91,713)
Taxes other than income	18,672	12,375
Insurance	6,153	6,447
Professional fees	2,229	12,583
Office costs	3,338	2,648
Operating lease rentals	2,295	1,670
Business travel expenses	4,259	3,259
Provision for impairment of trade and other receivables	2,391	1,862
Bank charges	2,794	2,526
Goods for resale	23,723	19,665
Other operating expenses	28,716	13,637
Other income	(13,258)	(14,696)
	1,027,829	718,483

6. Operating expenses and income continued

Exceptional impairment charges

Further development of gravel production and gold exploration operations at Yamal deposits is pending as the Directors continue to evaluate the available options for unlocking the value of these assets. Accordingly, an impairment provision of US$99.5 million was recognised against the carrying values of the associated assets included in exploration and evaluation costs capitalised within intangible assets (US$48.1 million), property, plant and equipment (US$42.8 million) and finished goods (US$8.6 million). The Directors consider this impairment to be exceptional in nature as it relates to a project in production.

Following the decision to suspend development of the thermal coal deposits associated with the K&S project of IRC indefinitely, an impairment provision of US$21.0 million was recognised against the carrying value of the associated assets included in mine development costs within property, plant and equipment. The Directors consider this impairment to be exceptional in nature as it relates to a project in development.

All other impairment charges

Following the decision to suspend exploration at Verkhnetisskaya and Troeusovskaya license areas located in Krasnoyarsk region, an impairment provision of US$9.9 million was recognised against the carrying values of the associated exploration and evaluation costs previously capitalised within intangible assets.

Central administration expenses

	2012			2011		
	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	54,385	–	54,385	57,542	–	57,542
Professional fees	6,529	–	6,529	7,683	(3,198) [a]	4,485
Insurance	1,361	–	1,361	1,924	–	1,924
Operating lease rentals	3,868	–	3,868	3,698	–	3,698
Business travel expenses	4,269	–	4,269	5,805	–	5,805
Office costs	2,012	–	2,012	2,081	–	2,081
Other	14,264	–	14,264	14,208	–	14,208
	86,688	–	86,688	92,941	(3,198)	89,743

(a) Refund of 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 their associates:

	2012 US$'000	2011 US$'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	493	356
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	383	311
For the audit of subsidiary statutory accounts pursuant to legislation [(a)]	616	580
	1,492	1,247
Non-audit fees		
Other services pursuant to legislation – interim review [(b)]	351	331
Fees for reporting accountants services [(c)]	570	–
Tax services	39	146
Other services	65	68
	1,025	545

(a) Including the statutory audit of subsidiaries in the UK and Cyprus as well as US$514 thousand (2011: US$478 thousand) payable for the audit of the consolidated financial statements of IRC Limited.

(b) Including US$133 thousand (2011: US$125 thousand) payable for the interim review of the consolidated financial statements of IRC Limited.

(c) Fees payable in relation to the circular issued on 18 February 2013 in connection with the proposed issue of shares by IRC Limited (note 35).

8. Staff costs

	2012 US$'000	2011 US$'000
Wages and salaries	209,169	176,007
Social security costs	51,426	40,387
Pension costs	656	637
Share based compensation	11,121	11,010
	272,372	228,041
Average number of employees	14,894	13,385

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continued

For the year ended 31 December 2012

9. Financial income and expenses

	2012			2011		
	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	2,121	–	2,121	3,119	–	3,119
	2,121	–	2,121	3,119	–	3,119
Interest expense						
Interest on bank and other loans	(58,766)	–	(58,766)	(24,626)	–	(24,626)
Interest on convertible bonds	(28,863)	–	(28,863)	(27,753)	–	(27,753)
	(87,629)	–	(87,629)	(52,379)	–	(52,379)
Interest capitalised	13,392	–	13,392	13,992	–	13,992
Unwinding of discount on environmental obligation	(754)	–	(754)	(1,254)	–	(1,254)
	(74,991)	–	(74,991)	(39,641)	–	(39,641)
Other finance losses						
Fair value losses on derivative financial instruments	(13,581)	–	(13,581)	(2,381)	–	(2,381)
	(13,581)	–	(13,581)	(2,381)	–	(2,381)

10. Taxation

	2012			2011		
	Before exceptional items US$'000	Exceptional items [a] US$'000	Total US$'000	Before exceptional items US$'000	Exceptional items [b] US$'000	Total US$'000
Current tax						
UK current tax	223	–	223	–	–	–
Russian current tax	61,418	–	61,418	73,888	–	73,888
	61,641	–	61,641	73,888	–	73,888
Deferred tax						
(Reversal)/origination of timing differences	(13,517)	(8,845)	(22,362)	46,947	–	46,947
Total tax charge	48,124	(8,845)	39,279	120,835	–	120,835

(a) Being reversal of associated deferred tax liabilities in connection with impairment charges (note 6).

(b) Exceptional items were tax neutral.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2012 US$'000	2011 US$'000
(Loss)/profit before tax	(204,669)	361,324
Tax at the UK corporation tax rate of 24.5% (2011: 26.5%)	(50,144)	95,751
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7,415)	(34,186)
Tax effect of share of results of joint ventures and associates	443	224
Tax effect of expenses that are not deductible for tax purposes	61,106	18,714
Tax effect of tax losses for which no deferred income tax asset was recognised	60,090	38,452
Income not subject to tax	(2,548)	(5,130)
Utilisation of previously unrecognised tax losses	(1,199)	(4,184)
Foreign exchange movements in respect of deductible temporary differences	(15,754)	17,422
Other adjustments	(5,300)	(6,228)
Tax expense for the period	39,279	120,835

11. Earnings per share

	2012 US$'000	2011 US$'000
(Loss)/profit for the period attributable to equity holders of Petropavlovsk PLC	(159,658)	230,885
Before exceptional items	98,771	228,453
Exceptional items	(258,429)	2,432
Interest expense on convertible bonds, net of tax	– [(a)]	20,398
(Loss)/profit used to determine diluted earnings per share	(159,658)	251,283
Before exceptional items	98,771	248,851
Exceptional items	(258,429)	2,432
	No of shares	No of shares
Weighted average number of Ordinary Shares	186,518,041	186,478,361
Adjustments for dilutive potential Ordinary Shares:		
– assumed conversion of convertible bonds	– [(a)]	18,478,083
– share options in issue	– [(b)]	9,618
Weighted average number of Ordinary Shares for diluted earnings per share	186,518,041	204,966,062
	US$	US$
Basic (loss)/earnings per share	(0.85)	1.24
Before exceptional items	0.54	1.23
Exceptional items	(1.39)	0.01
Diluted (loss)/earnings per share	(0.85)	1.23
Before exceptional items	0.54	1.22
Exceptional items	(1.39)	0.01

(a) Convertible bonds (note 20) which could potentially dilute basic earnings per ordinary share in the future were not included in the calculation of diluted earnings per share because they were anti-dilutive.

(b) Share options which could potentially dilute basic earnings per ordinary share until these lapsed unexercised on 19 July 2012 (note 30) were not included in the calculation of diluted earnings per share because they were anti-dilutive.

As at 31 December 2012 and 2011, the Group had a potentially dilutive option issued to the International Finance Corporation ("IFC") to subscribe for 1,067,273 Ordinary Shares (note 23) which was anti-dilutive (2011: anti-dilutive) and therefore was not included in the calculation of diluted earnings per share.

12. Dividends

	2012 [a] US$'000	2011 US$'000
Interim dividend for the year ended 31 December 2012 of £0.05 per share paid on 5 November 2012	14,632	–
Final dividend for the year ended 31 December 2011 of £0.07 per share paid on 23 July 2012	20,390	–
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
	35,022	36,856

(a) Information on dividends proposed subsequent to 31 December 2012 is set out in note 35.

13. Goodwill

	2012 US$'000	2011 US$'000
Cost		
At 1 January	22,161	22,161
At 31 December	22,161	22,161
Accumulated impairment		
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$'000	Yamal deposits US$'000	Flanks of Pokrovskiy US$'000	Flanks of Albyn US$'000	Other [a] US$'000	Total US$'000
At 1 January 2012	42,205	72,723	63,556	51,435	3,750	8,050	93,018	334,737
Additions	3,671	1,640	–	1,676	4,202	16,361	19,344	46,894
Acquisition of assets (note 27)	–	–	–	–	–	–	19,578	19,578
Disposal of subsidiaries	–	(74,363)	–	(4,988)	–	–	(7,147)	(86,498)
Impairment (note 6)	–	–	–	(48,123)	–	–	(9,968)	(58,091)
Transfer to mining assets	–	–	–	–	(82)	–	(601)	(683)
Transfer to assets classified as held for sale (note 28)	–	–	–	–	–	–	(64,286)	(64,286)
Reallocation and other transfers	–	–	–	–	(1,354)	–	(742)	(2,096)
At 31 December 2012	45,876	–	63,556	–	6,516	24,411	49,196	189,555

(a) 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$'000	Yamal deposits [b] US$'000	Flanks of Pokrovskiy US$'000	Flanks of Albyn US$'000	Other [d] US$'000	Total US$'000
At 1 January 2011	36,826	67,148	62,955	77,834	18,808	1,711	81,580	346,862
Additions	5,379	3,957	381	7,056	16,334	6,339	31,252	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) [c]	–	(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	8,050	93,018	334,737

(b) 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.

(c) 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.

(d) Represent amounts capitalised in respect of a number of projects in the Amur and other regions.

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 2011	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 22)	–	23,266	–	–	23,266
Transfers from intangible assets (note 14)	18,873	29,619	–	–	48,492
Transfers from capital construction in progress	1,386	202,399	25,700	(229,485)	–
Transfers from mine development	(182,328)	149,064	–	33,264	–
Transfers to mine development	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
Additions	49,138	149,082	17,643	403,966	619,829
Interest capitalised (note 9) (a)	2,821	–	–	10,571	13,392
Close down and restoration cost capitalised (note 22)	10,214	2,586	–	–	12,800
Transfers from intangible assets (note 14)	–	683	–	–	683
Transfers from capital construction in progress (b)	–	288,621	12,631	(301,252)	–
Transfers from mine development (c)	(42,670)	41,623	1,047	–	–
Disposals	(441)	(9,363)	(6,690)	(102)	(16,596)
Disposal of subsidiaries	–	(3,152)	(1,336)	(5)	(4,493)
Transfer to assets classified as held for sale (note 28)	(507,249)	(106,480)	(32,076)	(16,003)	(661,808)
Reallocation and other transfers	(7,566)	10,513	(159)	(549)	2,239
Foreign exchange differences	–	–	2,908	(8)	2,900
At 31 December 2012	6,358	1,697,966	219,549	264,285	2,188,158
Accumulated depreciation and impairment					
At 1 January 2011	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	5,242	117	–	–	5,359
Foreign exchange differences	–	–	(527)	–	(527)
At 31 December 2011	14,519	263,924	60,585	14,572	353,600
Charge for the year	4,699	215,312	24,397	–	244,408
Disposals	(268)	(5,914)	(4,623)	–	(10,805)
Disposal of subsidiaries	–	(587)	(712)	–	(1,299)
Impairment (note 6)	20,910	39,888	331	2,568	63,697
Transfer to assets classified as held for sale (note 28)	(29,691)	(19,140)	(5,156)	(14,572)	(68,559)
Reallocation and other transfers	(4,491)	3,816	818	–	143
Foreign exchange differences	–	–	507	–	507
At 31 December 2012	5,678	497,299	76,147	2,568	581,692
Net book value					
At 31 December 2011 (d)	487,592	1,059,929	164,996	153,095	1,865,612
At 31 December 2012 (d)	680	1,200,667	143,402	261,717	1,606,466

(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 7.2% (2011: 6.8%).

(b) Being costs primarily associated with continuous development of Malomir, Albyn and Pioneer projects.

(c) Following commencement of commercial production of gravel at the Novogodnee Monto area of the Yamal deposits associated mine development costs were transferred to the mining assets.

(d) Property, plant and equipment with a net book value of US$173.0 million (31 December 2011: US$211.7 million) have been pledged to secure borrowings of the Group.

16. Inventories

	2012 US$'000	2011 US$'000
Current		
Construction materials	20,931	30,114
Stores and spares	124,515	128,654
Ore in stockpiles [c]	101,669	78,084
Work in progress	39,712	21,073
Deferred stripping costs	51,555	47,114
Bullion in process	2,534	9,917
Finished goods	–	8,111
Other	5,076	7,593
	345,992	330,660
Non-current		
Ore in stockpiles [a],[c]	66,204	16,828
Deferred stripping costs [b]	–	26,359
	66,204	43,187

(a) Ore in stockpiles that is 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.

(c) As at 31 December 2012, ore in stockpiles include balances in the aggregate of US$106.2 million carried at net realisable value (2011: US$ nil).

17. Trade and other receivables

	2012 US$'000	2011 US$'000
Current		
VAT recoverable	101,441	109,250
Advances to suppliers	20,178	63,856
Trade receivables [a]	11,376	11,442
Consideration receivable for disposal of subsidiaries [b]	24,284	–
Advances paid on resale and commission contracts [c]	–	1,248
Other debtors [d]	31,982	23,181
	189,261	208,977

(a) Net of provision for impairment of US$0.8 million (2011: US$1.1 million).

Trade receivables are due for settlement between one and six months. Included in trade receivables are individual balances totalling US$ nil (2011: US$0.01 million) which are past due but not impaired as the amounts are still considered recoverable.

(b) Note 29.

(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$6.4 million (2011: US$5.6 million).

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.

18. Cash and cash equivalents

	2012 US$'000	2011 US$'000
Cash at bank and in hand	23,300	105,081
Short-term bank deposits	135,926	108,475
	159,226	213,556

19. Trade and other payables

	2012 US$'000	2011 US$'000
Trade payables	55,429	37,684
Advances from customers	10,002	7,724
Advances received on resale and commission contracts (a)	3,740	6,370
Accruals and other payables	76,627	83,126
	145,798	134,904

(a) Amounts included in advances paid on resale and commission contracts at 31 December 2012 and 31 December 2011 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.

20. Borrowings

	2012 US$'000	2011 US$'000
Borrowings at amortised cost		
Convertible bonds (a)	352,475	338,812
Bank loans (b)	867,265	659,630
ICBC facility (c)	–	6,343
Other loans (b)	2,781	2,053
	1,222,521	1,006,838
Amount due for settlement within 12 months	83,789	216,430
Amount due for settlement after 12 months	1,138,732	790,408
	1,222,521	1,006,838

(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 2012, the fair value of the Bonds, calculated by applying the effective interest rate of 7.5% to the liability component of the Bonds, amounted to US$360.3 million (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).

(b) As at 31 December 2012, US$128.8 million (2011: US$168.3 million) of bank loans 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 2012 was 6.8% (2011: 6%).

The carrying value of the bank loans approximated their fair value at each period end.

As at 31 December 2012, bank loans with an aggregate carrying value of US$608.9 million (2011: US$296.2 million) contain certain financial covenants.

As at 31 December 2012, the amounts undrawn under the bank loans were US$153.2 million (2011: US$129.6 million).

(c) Note 28.

21. Deferred taxation

	2012 US$'000	2011 US$'000
At 1 January	173,469	126,768
Deferred tax (credited)/charged to income statement	(22,362)	46,947
Disposal of subsidiaries	(16,039)	–
Deferred tax charged to equity	–	153
Transfer to liabilities associated with assets classified as held for sale	(59,594)	–
Exchange differences	439	(399)
At 31 December	75,913	173,469
Deferred tax assets	1,373	2,562
Deferred tax liabilities	(77,286)	(176,031)
Net deferred tax liability	(75,913)	(173,469)

	At 1 January 2012 US$'000	Charged/ (credited) to the income statement US$'000	Disposal of subsidiaries US$'000	Transfer to liabilities associated with assets classified as held for sale [(a)] US$'000	Exchange differences US$'000	At 31 December 2012 US$'000
Property, plant and equipment	132,500	(13,122)	72	(59,396)	95	60,149
Inventory	29,747	396	(30)	534	(27)	30,620
Capitalised exploration and evaluation expenditure	(3,165)	4,338	(4,007)	–	–	(2,834)
Fair value adjustments	21,775	(1,232)	(12,394)	–	316	8,465
Tax losses	(2,523)	(1,889)	–	–	–	(4,412)
Other temporary differences	(4,865)	(10,853)	320	(732)	55	(16,075)
	173,469	(22,362)	(16,039)	(59,594)	439	75,913

(a) Note 28.

	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

As at 31 December 2012, the Group did not recognise deferred income tax assets in respect of the accumulated tax losses comprising US$597.2 million, including US$248.3 million accumulated tax losses of IRC (note 28), that can be carried forward against future taxable income (2011: US$384.8 million). Tax losses of US$248.8 million can be carried forward indefinitely and tax losses of US$348.4 million expire primarily between 2018 and 2022.

As at 31 December 2012, the Group did not recognise deferred income tax assets of US$47.7 million (2011: US$35.4 million) in respect of temporary differences arising on certain capitalised development costs, including US$37.3 million related to IRC (note 28).

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. As at 31 December 2012, unremitted earnings comprised in aggregate US$1,192.1 million (2011: US$827.3 million).

22. Provision for close down and restoration costs

	2012 US$'000	2011 US$'000
At 1 January	34,958	11,085
Recognised during the year	14,278	10,042
Unwinding of discount	754	1,254
Change in estimates	(1,625)	13,224
Transfer to liabilities associated with assets classified as held for sale (note 28)	(14,626)	–
Foreign exchange differences	239	(647)
At 31 December	33,978	34,958

The Group recognised provisions in relation to close down and restoration costs for the following mining operations:

	2012 US$'000	2011 US$'000
Pokrovskiy	5,238	4,990
Pioneer	5,394	4,979
Malomir	11,833	10,843
Albyn	11,129	10,053
Yamal	384	–
Kuranakh [a]	–	4,093

(a) Transferred to liabilities associated with assets classified as held for sale (note 28).

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. The expenditure arises at different times over the life of mine. The expected timing of significant cash outflows is between years 2017 and 2022 and beyond, varying from mine site to mine site.

23. Share capital

	2012		2011	
	No of shares	US$'000	No of shares	US$'000
Allotted, called up and fully paid				
At 1 January	187,860,093	2,891	187,860,093	2,891
Issued during the period	–	–	–	–
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.

24. Own shares

	2012 US$'000	2011 US$'000
At 1 January	10,444	10,675
Vesting of awards within Petropavlovsk PLC LTIP	(248)	(231)
At 31 December	10,196	10,444

Own shares represent 1,319,733 Ordinary Shares held by the EBT (2011: 1,351,806) to provide benefits to employees under the Long-Term Incentive Plan (note 30).

25. Notes to the cash flow statement

Reconciliation of profit before tax to operating cash flow

	2012 US$'000	2011 US$'000
(Loss)/profit before tax	(204,669)	361,324
Adjustments for:		
Share of results of joint ventures	2,338	1,360
Share of results of associate	81	–
Investment income	(2,121)	(3,119)
Interest expense	74,991	39,641
Other finance losses [(a)]	–	2,381
Share based payments	11,121	11,010
Depreciation	230,440	132,202
Impairment charges	130,504	42,078
Impairment of ore stockpiles	29,692	–
Impairment of non-trading loans	–	14,241
Provision for impairment of trade and other receivables	2,391	1,862
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell	197,854	–
Loss on disposals of property, plant and equipment	3,665	2,118
Loss on disposal of subsidiaries	26,937	–
Gain on disposal of the Group's interests in joint ventures and available-for-sale investments	(498)	(12,036)
Net gain on acquisition of Jiatai Titanium	–	(1,439)
Exchange (gains)/losses in respect of investment activity	(85)	(940)
Exchange (gains)/losses in respect of cash and cash equivalents	(4,626)	58
Other non-cash items	1,639	(3,450)
Changes in working capital:		
Decrease/(increase) in trade and other receivables	12,084	(104,093)
Increase in inventories	(119,901)	(158,137)
Increase in trade and other payables	18,399	31,226
Net cash generated from operations	410,236	356,287

(a) Net of cash settlements payable on maturity of derivative financial instruments.

Non-cash transactions
Other than acquisition of assets for consideration that was satisfied through the issuance of ordinary shares by IRC Limited (note 27), there have been no significant non-cash transactions during the years ended 31 December 2012 and 2011.

26. Related parties

Related parties the Group entered into transactions with during the reporting period
OJSC Asian-Pacific Bank ("Asian-Pacific Bank") is considered to be a related party as Mr Peter Hambro and Dr Pavel Maslovskiy have interests and, collectively, exercise significant influence over Asian-Pacific Bank.

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 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 Verhnetisskaya GRK.

Odolgo Joint Venture was a joint venture of the Group and hence was considered to be a related party until it was disposed in May 2011.

LLC Uralmining was an associate of the Group and hence is a related party until it was acquired and became a subsidiary to the Group in April 2012.

CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ("Omchak") became an associate to the Group on 4 December 2012 (note 29) and hence are related parties since then.

Transactions with related parties the Group entered into during the years ended 31 December 2012 and 2011 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	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Asian-Pacific Bank				
Sales of gold and silver	1,484	168,578	–	–
Other	383	281	1,124	1,064
	1,867	168,859	1,124	1,064
Trading transactions with other related parties				
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	121	229	9,993	6,093
Entities controlled by key management	–	–	92	113
Joint ventures and associates	4	562	–	–
	125	791	10,085	6,206

During the year ended 31 December 2012, the Group made US$2.6 million charitable donations to the Petropavlovsk Foundation (2011: US$3.4 million).

The outstanding balances with related parties at 31 December 2012 and 2011 are set out below.

	Amounts owed by related parties at 31 December		Amounts owed to related parties at 31 December	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Other entities in which Mr Peter Hambro and/or Dr Pavel Maslovskiy have a controlling interest or exercise a significant influence	1,386	60	584	1,713
Joint ventures and associates	485	–	824	–
Asian-Pacific Bank	2	7	–	–
	1,873	67	1,408	1,713

26. Related parties continued

Banking arrangements

The Group has current and deposit bank accounts with Asian-Pacific Bank.

The bank balances at 31 December 2012 and 2011 are set out below.

	2012 [(a)] US$'000	2011 US$'000
Asian-Pacific Bank	14,054	19,972

(a) Including US$8.3 million presented within assets classified as held for sale as at 31 December 2012 (note 28).

Financing transactions

During the year ended 31 December 2012, the Group received US$0.8 million under interest-free unsecured loan arrangements from Krasnoyarskaya GGK. As at 31 December 2012, the loan principal outstanding amounted to US$2.8 million (31 December 2011: US$2.0 million).

As at 31 December 2012, the Group had an interest-free unsecured loan issued to LLC Kaurchak. Loan principal outstanding amounted to US$1.0 million.

During the year ended 31 December 2011, the Group invested US$0.7 million in the associate through equity.

Key management compensation

Key management personnel, comprising a group of 22 (2011: 23) individuals, including Executive and Non-Executive Directors of the Company and members of senior management, are those having authority and responsibility for planning, directing and controlling the activities of the Group.

	2012 US$'000	2011 US$'000
Wages and salaries	14,763	14,347
Pension costs	549	325
Share based compensation	6,519	2,869
	21,831	17,541

27. Acquisition of assets

Acquisition of Molybdenum exploration project

On 11 July 2012, the Group, through its subsidiary IRC Limited, acquired a 50% plus one share equity interest in Caedmon Limited ("Caedmon"), the holder of exploration and mining licences of a Molybdenum exploration project in the Amur Region. The total consideration in the equivalent of US$6.5 million was satisfied through the issuance and allotment of 57,352,941 ordinary shares of IRC Limited with a nominal value of HK$0.01 each. In addition, IRC Limited also acquired the related shareholder indebtedness and an option to acquire the remaining 50% minus one share equity interest in Caedmon (the "Option"). The Group may exercise the Option any time over a two-year period commencing on the date of completion of the transaction. US$180,000 and US$320,000 are payable for the grant of Option and the shareholder indebtedness, respectively within twelve months of the completion of the transaction. The transaction was accounted for as an asset acquisition and the cost of acquisition was allocated to the mining rights of the molybdenum exploration project.

Acquisition of Bolshoi Seym deposit

On 24 July 2012, the Group, through IRC Limited and its subsidiaries, acquired the remaining 51% interest in its associate LLC Uralmining ("Uralmining"), the holder of the exploration and mining licences of Bolshoi Seym ilmenite deposit. The total consideration in the equivalent of US$6.5 million was satisfied through the issuance and allotment of 74,681,360 ordinary shares of IRC Limited, with a nominal value of HK$0.01 each, at a market value of HK$0.68 per share on 24 July 2012. Uralmining changed from an associate to a subsidiary of the Group thereof. The transaction was accounted for as an asset acquisition and the cost of acquisition was allocated to the mining rights of the Bolshoi Seym deposit.

28. Assets classified as held for sale

Following negotiations with several interested parties the Directors of the Company resolved to approve the potential investment in IRC Limited by the investors (see note 35) and to accept the resulting dilution of the Group's holding in IRC to a non-controlling interest. This dilution is expected to be completed within 12 months after the reporting date and accordingly IRC has been classified as "held for sale" and presented separately in the balance sheet as at 31 December 2012.

The main categories of assets and liabilities classified as held for sale are set out below.

	Carrying amount US$' 000	Fair value less costs to sell [a] US$'000
Intangible assets	64,286	43,070
Property, plant and equipment [b]	593,249	378,243
Prepayments for property, plant and equipment	162,012	162,012
Interests in joint ventures	4,887	4,887
Other non-current assets	27,199	27,199
Inventories	43,376	43,376
Trade and other receivables	41,132	41,132
Cash and cash equivalents	18,036	18,036
Total assets classified as held for sale	954,177	717,955
Trade and other payables	18,959	18,959
Current income tax payable	353	353
Borrowings [c],[d]	124,475	124,475
Deferred tax liabilities	59,594	21,226
Provision for close down and restoration costs	14,626	14,626
Total liabilities associated with assets classified as held for sale	218,007	179,639
Net assets of IRC	736,170	538,316
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell		(197,854)

(a) Based on market share price of HK$1.17 per IRC share as at 31 December 2012 less estimated transaction costs. A decrease/ increase of 10% in IRC's share price would result in US$52.7 million additional write-down/reversal of write-down adjustment.

(b) At 31 December 2012, IRC had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US$247 million.

(c) On 6 December 2010, Kimkano-Sutarsky Mining and Beneficiation Plant LLC ("K&S"), a subsidiary of IRC, 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 Offered rate ("LIBOR") per annum. The facility is guaranteed by the Company and is repayable semi-annually starting from 2014 and is fully repayable by 2022. The loan is carried at amortised cost with effective interest rate at 5.63% per annum.

As at 31 December 2012 and 2011, US$6 million was deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement and is presented within non-current assets. ICBC Facility Agreement contains certain financial covenants. As at 31 December 2012, the amounts undrawn under the ICBC Facility Agreement were US$220.6 million (2011: US$333 million).

(d) During the year ended 31 December 2012, IRC entered into the following financing transactions with Asian-Pacific Bank:
– IRC repaid US$15 million unsecured 10% loan received from Asian-Pacific Bank in 2011;
– IRC entered into a US$10 million unsecured 10.3% facility, which was fully utilised and subsequently repaid during the year;
– IRC entered into a US$15 million unsecured 11% facility, the loan was fully drawn down during the year and is repayable in August 2013;
– IRC entered into a US$10 million unsecured 11.2% facility, repayable in December 2013.

As at 31 December 2012, the amounts undrawn under the facilities with Asian-Pacific Bank were US$10 million (31 December 2011: US$ nil).

29. Disposal of subsidiaries

On 4 December 2012, the Group disposed of its 65% investment in CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ("Omchak") for the total cash consideration of US$21.7 million. The Group retained 25% interest in Omchak and, accordingly, Omchak has become an associate of the Group since that date.

The net assets of Omchak as at the date of disposal are set out below.

	4 December 2012 US$'000
Intangible assets	81,442
Property, plant and equipment	621
Inventories	28
Trade and other receivables	1,744
Cash and cash equivalents	9
Trade and other payables	(1,617)
Deferred tax liability	(14,798)
Net assets disposed	67,429
Non-controlling interests	(6,750)
Group's share of net assets disposed	60,679
Total consideration [(a)]	21,650
Fair value of 25% equity interest in Omchak retained	8,327
Loss on disposal	(30,702)
Net cash outflow arising on disposal:	
Consideration received in cash and cash equivalents	–
Less: cash and cash equivalents disposed of	(9)
	(9)

(a) Total consideration is receivable in cash in four equal tranches as follows:
US$5,412,500 on or before 31 January 2013;
US$5,412,500 on or before 30 June 2013;
US$5,412,500 on or before 30 September 2013;
US$5,412,500 on or before 31 December 2013.

On 7 February 2012, the Group disposed of its interest in the wholly-owned subsidiary CJSC SeverChrome for total cash consideration of US$7.8 million and recognised a gain on disposal of US$1.3 million. Net cash inflow arising on disposal amounted to US$5.6 million.

On 5 December 2012, the Group disposed of its interest in the wholly-owned subsidiary LLC Uduma for the total cash consideration in the equivalent of US$4.8 million, out of which US$2.6 million was outstanding as at 31 December 2012, and recognised a gain on disposal of US$ 2.4 million. Net cash inflow arising on disposal amounted to US$2.1 million.

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 £
Outstanding at 1 January 2012	50,000	6.72	462,961	–	1,365,108	–
Granted during the year	–	–	–	–	–	–
Forfeited during the year	–	–	(43,394)	–	(98,620)	–
Exercised and vested during the year	–	–	(32,073)	–	–	–
Expired during the year	(50,000)	6.72	–	–	–	–
Outstanding at 31 December 2012	–	–	387,494 [(a)]	–	1,266,488	–

(a) It is the intention of the Remuneration Committee that 42.5% of the awards will vest in April 2013 following the announcement of the Company's 2012 full year results.

Petropavlovsk PLC Long-Term Incentive Plan (the "Petropavlovsk PLC LTIP")
The Group established 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 220,830 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 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	–

30. Share based payments continued

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, £	4.46	6.00

On 12 May 2011, the Group 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 1,098,904 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 dividend 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 IRC (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 details of share awards outstanding under LTIP of IRC Limited are set out below.

	Number of shares of IRC Limited		
	granted on 3 November 2010	granted on 1 August 2011	granted on 1 July 2012
Outstanding at 1 January 2012	91,138,500	2,332,000	–
Granted during the year	–	–	1,000,000
Forfeited during the year	–	–	–
Exercised and vested during the year	–	–	–
Expired during the year	–	–	–
Outstanding at 31 December 2012	91,138,500	2,332,000	1,000,000

The scheme has a three year vesting period and is subject to the certain vesting conditions as set out below.

Vesting conditions for the share awards granted on 2 November 2010 and 1 July 2012:
- 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; and
- 25% of the award vesting is relating to the meeting of certain health, safety and environmental requirements.

Vesting conditions for the share awards granted on 1 August 2011:
- 20% of the award vesting is relating to the achievement of certain production targets;
- 20% of the award vesting is relating to profitability;
- 20% of the award vesting is relating to the growth and development of IRC;
- 20% of the award vesting is relating to the meeting of certain health, safety and environmental requirements; and
- 20% of the award vesting is relating to the share price performance of IRC Limited.

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 respective award dates and recognised in the consolidated income statement over the vesting period.

31. Analysis of net debt

	At 1 January 2012 US$'000	Acquisition of subsidiaries US$'000	Disposal of subsidiaries US$'000	Net cash movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	Transferred to assets classified as held for sale and associated liabilities [a] US$'000	At 31 December 2012 US$'000
Cash and cash equivalents	213,556	920	7,725	(49,565)	4,626	–	(18,036)	159,226
Debt due within one year	(216,430)	–	416	235,560	(3)	(118,472)	15,140	(83,789)
Debt due after one year	(790,408)	–	–	(495,403)	(130)	37,874	109,335	(1,138,732)
Restricted bank deposit	6,000	–	–	–	–	–	(6,000)	–
Net debt	(787,282)	920	8,141	(309,408)	4,493	(80,598) [b]	100,439	(1,063,295)

(a) Note 28.

(b) 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 2012, the capital comprised US$2.7 billion (2011: US$2.7 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

	2012 US$'000	2011 US$'000
Financial assets		
Cash and cash equivalents	159,226	213,556
Loans and receivables	60,183	39,111
Available-for-sale investments	255	561
Financial liabilities		
At amortised cost – trade and other payables	71,595	85,218
At amortised cost – borrowings	1,222,521	1,006,838

32. Financial instruments and financial risk management continued

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 2012 would decrease/increase by US$3.63 million (2011: decrease/increase by US$0.87 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 in which 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.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at period end are as set out below.

	Assets		Liabilities	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Russian Roubles	211,703	260,573	106,012	110,150
US Dollars [(a)]	4,501	12,778	13,699	1,822
GB Pounds Sterling	1,186	2,269	11,075	14,179
EUR	175	2,929	14,876	–
Other currencies	440	1,085	169	135

(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 10% movement has been applied to an average outstanding foreign currency denominated balance (2011: 10%), representing management's assessment of a reasonably possible change in foreign exchange currency rates.

	2012 US$'000	2011 US$'000
Russian Roubles currency impact	10,569	15,042
EUR currency impact	1,470	293
US Dollar currency impact	920	1,096
GB Pounds Sterling currency impact	989	1,191
Other currencies	27	95

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 26).

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 2012 US$'000	Carrying amount at 31 December 2011 US$'000
Alfa Bank	BBB-	120,793	52
Sberbank	BBB	10,550	45,457
UBS	A	7,254	55,270
Asian-Pacific Bank	–	5,622	19,972
VTB	BBB	3,975	6,599
Royal Bank of Scotland	A	2,919	62,986

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. In February 2013, the Group has entered into financing contracts to sell a total of 399,000oz of gold over a period of 14 months ending in March 2014 at an average price of US$1,663/oz in order to protect cash flows from the volatility in the gold price.

Equity price risk
The Group is exposed to equity price risk through the investment in IRC (note 28).

32. Financial instruments and financial risk management continued

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 20) 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
2012					
Borrowings					
– Convertible bonds	–	–	–	380,000	–
– Loans	14,773	64,280	337,256	64,328	388,826
Expected future interest payments [(a)]	22,317	49,487	61,634	42,328	44,777
Trade and other payables	71,595	–	–	–	–
	108,685	113,767	398,890	486,656	433,603
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

(a) Expected future interest payments have been estimated using interest rates applicable at 31 December. Loans outstanding at 31 December 2012 in the amount of US$275 million (2011: US$337 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

	2012 US$'000	2011 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	13,077	4,640

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:

	2012 US$'000	2011 US$'000
Expiring:		
Within one year	223	9,989
In two to five years	–	21,181
	223	31,170

The Group as a Lessor
The Group earned property rental income during the year of US$2.6 million (2011: US$2.6 million) on buildings owned by its subsidiaries Irgiredmet and Giproruda.

34. Capital commitments

At 31 December 2012, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US$72.1 million, including US$52.3 million in relation to the POX Hub (2011: US$494.7 million, including US$52.3 million in relation to the POX Hub and US$328.2 million in relation to development of the K&S project).

35. Subsequent events

Issue of shares by IRC Limited
On 17 January 2013, IRC Limited entered into conditional subscription agreements with each of General Nice Development Limited ("General Nice") and Minmetals Cheerglory Limited ("Minmetals") for an investment by General Nice and Minmetals in new shares of IRC Limited for up to approximately HK$1,845 million (approximately US$238 million) in aggregate (the "Share Issue Transaction"). In addition, IRC Limited has also entered into a long-term offtake arrangement ("Offtake Arrangement") with General Nice and Minmetals in respect of IRC's products. Details are set out below.

(i) General Nice Subscription
General Nice has conditionally agreed to subscribe for a total of 851,600,000 new shares of the Company at the price of HK$0.94 (approximately US$0.12) per new share, of which 817,536,000 new shares will be allotted and issued upon General Nice initial subscription completion. The remaining 34,064,000 new shares will be allotted and issued upon, among other things, the allotment of General Nice Further Subscription Shares (as defined below).

In addition, IRC Limited has also granted General Nice a right to subscribe for 863,600,000 new Shares ("General Nice Further Subscription Shares"), which may be exercised at General Nice's discretion within six months after the General Nice initial subscription completion date.

Assuming total investment completion occurs, the General Nice will, in aggregate, hold approximately 31.43% of the issued share capital of IRC Limited as enlarged by the Share Issue Transaction.

(ii) Minmetals Subscription
Minmetals has conditionally agreed to subscribe for a total of 247,300,000 new shares of IRC Limited at the price of HK$0.94 (approximately US$0.12) per new share. The Minmetals subscription completion is conditional upon, among other things, the completion of the General Nice Further Subscription.

Assuming total investment completion occurs, Minmetals will hold approximately 4.53% of the issued share capital of IRC Limited as enlarged by the Share Issue Transaction.

35. Subsequent events continued

(iii) Offtake Arrangement
Under the Offtake Arrangement, which applies to all of the existing and future iron ore projects of IRC (other than the Kuranakh project and other specified types of projects) and in respect of products with an iron content of 32% or greater, (i) IRC Limited shall sell and General Nice and Minmetals shall purchase product which is nominated by IRC Limited to be sold through the seaborne market; and (ii) General Nice and Minmetals shall assist the IRC in developing its sales and marketing capacity in the dry port market (i.e. product to be exported by rail crossing rather than by sea) and in the identification of customers for its products which are not sold through the seaborne market to the General Nice and Minmetals, for which IRC Limited shall pay General Nice and Minmetals a marketing commission.

The above transactions have been approved at the Company's Extraordinary General Meeting on 7 March 2013 and the Extraordinary General Meeting of IRC Limited on 11 March 2013.

The Directors expect that the General Nice initial subscription will take place in April 2013 and further, expect the subscription in relation to the General Nice Further Subscription Shares and Minmetals Subscription to take place within six months from the General Nice Initial subscription completion date in April 2013. Assuming total investment completion occurs, the Group's interest in the share capital of IRC Limited would be diluted from 63.13% held at 31 December 2012 to 40.43%. A pro-rata indemnity from General Nice in relation to the Company's guarantee under the ICBC Facility Agreement (note 28) will be then implemented.

Hedging agreements
In February 2013, the Group has entered into financing contracts to sell a total of 399,000oz of gold over a period of 14 months ending in March 2014 at an average price of US$1,663/oz.

Final dividend
On 27 March 2013, the Board of Directors resolved to recommend a final dividend comprising a cash payment of £0.02 per Ordinary Share, together with an entitlement to new shares, with an attributable value of £0.05 per Ordinary Share.

36. Reconciliation of non-GAAP measures

	2012			2011		
	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/(loss) for the period	92,453	(336,401)	(243,948)	238,057	2,432	240,489
Add/(less):						
Interest expense	74,991	–	74,991	39,641	–	39,641
Investment income	(2,121)	–	(2,121)	(3,119)	–	(3,119)
Other finance losses	13,581	–	13,581	2,381	–	2,381
Foreign exchange (gains)/losses	(8,033)	–	(8,033)	9,833	–	9,833
Reversal of gain attributed to re-measuring equity interest in Omchak [(a)]	–	25,480	25,480	–	–	–
Net gain on acquisition of Jiatai Titanium	–	–	–	–	(1,439)	(1,439)
Taxation	48,124	(8,845)	39,279	120,835	–	120,835
Depreciation, amortisation and impairment	270,181	318,309	588,490	174,280	14,241	188,521
Underlying EBITDA	489,176	(1,457)	487,719	581,908	15,234	597,142

(a) Gain on re-measuring of equity interest in Omchak on acquisition in 2010 associated with Omchak assets disposed during the year ended 31 December 2012.

37. 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 2012	Proportion of shares held by Petropavlovsk PLC 31 December 2011	Proportion of shares held by the Group 31 December 2012	Proportion of shares held by the Group 31 December 2011
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%	99.86%
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%	100%
CJSC Verkhnetisskaya Ore Mining Company	Russia	Gold exploration and production	–	–	70%	70%
CJSC YamalZoloto	Russia	Gold exploration and production	–	–	100%	100%
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%
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%	100%
CJSC Berelekh [a]	Russia	Gold exploration and production	–	–	76.62%	76.62%
LLC ZeyaZoloto	Russia	Gold exploration and production	–	–	100%	100%
LLC Uduma	Russia	Gold exploration and production	–	–	–	100%
Major Miners Inc.	Guyana	Gold exploration and production	–	–	100%	100%
Universal Mining Inc.	Guyana	Gold exploration and production	–	–	100%	100%
Cuyuni River Ventures Inc.	Guyana	Gold exploration and production	–	–	100%	100%
CJSC SeverChrome	Russia	Chrome exploration and production	–	–	–	100%
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%	99.86%
Pokrovskiy Mining College	Russia	Educational institute	–	–	98.61%	98.61%
Associate						
CJSC ZRK Omchak [b]	Russia	Gold exploration and production	25%	90%	25%	90%

(a) Including subsidiaries of OJSC Berelekh, being LLC Maldyak, LLC Monolit and LLC Elita.

(b) Including subsidiary of CJSC ZRK Omchak, being LLC Kaurchak. CJSC ZRK Omchak was a subsidiary until December 2012 (note 29).

Notes to the Consolidated Financial Statements
continued

For the year ended 31 December 2012

37. Group companies continued

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC		Proportion of shares held by the Group	
			31 December 2012	31 December 2011	31 December 2012	31 December 2011
IRC Limited and its principal subsidiary, joint venture and associate undertakings ("IRC") [(c)]						
IRC Limited	HK	Management and holding company	–	–	63.13%	65.61%
Principal subsidiaries of IRC Limited						
LLC Petropavlovsk Iron Ore	Russia	Management company	–	–	63.13%	65.61%
LLC Olekminsky Rudnik	Russia	Iron ore exploration and production	–	–	63.13%	65.61%
LLC Kimkano-Sutarskiy Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	63.13%	65.61%
LLC Garinsky Mining & Metallurgical Complex	Russia	Iron ore exploration and production	–	–	62.86%	65.33%
LLC Kostenginskiy Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	63.13%	65.61%
LLC Orlovo-Sokhatinsky Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	63.13%	65.61%
LLC Karier Ushumunskiy	Russia	Iron ore exploration and production	–	–	63.13%	65.61%
OJSC Giproruda	Russia	Engineering services	–	–	44.37%	46.11%
LLC Rubicon	Russia	Infrastructure project	–	–	63.13%	65.61%
CJSC SGMTP	Russia	Infrastructure project	–	–	63.13%	65.61%
LLC AmurSnab	Russia	Procurement services	–	–	63.13%	65.61%
Heilongjiang Jiatai Titanium Co., Limited	China	Titanium sponge project	–	–	63.13%	65.61%
LLC Uralmining	Russia	Iron ore exploration and production			63.13%	32.15% [(d)]
LLC Gorniy Park	Russia	Molybdenym project	–	–	31.63%	–
Joint ventures of IRC Limited			–	–		
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	Vanadium project			29.04%	30.18%

(c) After taking account of the 3.32% (2011: 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 65.30% (2011: 67.96%).

(d) LLC Uralmining was an associate until it was acquired in July 2012 (note 27).

Company Balance Sheet

For the year ended 31 December 2012

	note	2012 US$'000	2011 US$'000
Fixed assets			
Tangible assets		124	100
Investments	3	849,299	1,573,035
		849,423	1,573,135
Current Assets			
Debtors: due within one year	4	465,662	492,262
Debtors: due after one year	4	300,000	34,616
Cash at bank and in hand		3,186	52,247
		768,848	579,125
Creditors: amounts falling due within one year	5	(330,013)	(774,789)
Net current assets/(liabilities)		438,835	(195,664)
Total assets less current liabilities		1,288,258	1,377,471
Creditors: amounts falling due after more than one year	5	(574,161)	(472,525)
Net assets		714,097	904,946
Capital and reserves	7		
Share capital		2,891	2,891
Share premium		377,140	377,140
Merger reserve		130,011	331,704
Own shares		(14,483)	(14,835)
Convertible bond reserve		59,032	59,032
Other reserves		17,180	13,859
Profit and loss account		142,326	135,155
Shareholders' funds		714,097	904,946

The accompanying notes are an integral part of this balance sheet.

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 171 to 176 were approved by the Directors on 27 March 2013 and signed on their behalf by:

Peter Hambro
Director

Andrey Maruta
Director

Notes to the Company Financial Statements continued

For the year ended 31 December 2012

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 profit after tax for the year of the Company was US$41.7 million including an adjustment to the book value of the investment in IRC Limited and a corresponding transfer from the merger reserve of US$201.7 million (2011: loss after tax of US$42.7 million, including an adjustment to the book value of the investment in IRC Limited and a corresponding transfer from the merger reserve of US$238.4 million), (note 7).

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 2.9 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 stated 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, 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.

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
The 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 the 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, 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 Dividends
Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

2.10 Operating leases
Rentals paid under operating leases are charged to the profit and loss account as incurred.

Notes to the Company Financial Statements
continued

For the year ended 31 December 2012

3. Investments

	Investments in Group companies US$'000	Investments in associates US$'000	Other investments other than loans US$'000	Total US$'000
Cost				
At 1 January 2012	1,829,094	–	543	1,829,637
Additions	31,671	–	–	31,671
Disposal of a subsidiary (a)	(34,407)	9,574	–	(24,833)
Fair value change	–	–	(297)	(297)
At 31 December 2012	1,826,358	9,574	246	1,836,178
Provision for impairment				
At 1 January 2012	(256,602)	–	–	(256,602)
Charge for the year	(223,849) (b)	(1,247)	–	(225,096)
Impact of intra-group transfers	(505,181)	–	–	(505,181)
At 31 December 2012	(985,632)	(1,247)	–	(986,879)
Net book value				
At 1 January 2012	1,572,492	–	543	1,573,035
At 31 December 2012	840,726	8,327	246	849,299

(a) Note 29 to the consolidated financial statements.

(b) Including US$201.7 million adjustment to reflect changes in the value of the Group's investment in IRC Limited (note 7).

4. Debtors

	2012 US$'000	2011 US$'000
Owed by Group companies	743,359	525,969
VAT recoverable	222	473
Other debtors	22,081	436
	765,662	526,878
Due within one year	465,662	492,262
Due after more than one year	300,000	34,616
	765,662	526,878

5. Creditors

	2012 US$'000	2011 US$'000
Due to Group companies	321,267	934,738
Bank loans	571,908	298,707
Trade creditors	3,732	3,704
Accruals and other creditors	7,267	10,165
	904,174	1,247,314
Due within one year	330,013	774,789
Due after more than one year	574,161	472,525
	904,174	1,247,314

6. Taxation

As at 31 December 2012, the Company has tax losses available to carry forward in the amount of US$143.3 million (2011: US$80.9 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 2011	2,891	377,140	570,071	59,032	(15,163)	11,667	214,756	1,220,394
Loss for the year, including transfer from merger reserve	–	–	(238,367) (d)	–	–	–	(42,745)	(281,112)
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)
Balance at 1 January 2012	2,891	377,140	331,704	59,032	(14,835)	13,859	135,155	904,946
Profit for the year, including transfer from merger reserve	–	–	(201,693) (d)	–	–	–	41,737	(151,956)
Dividends (b)	–	–	–	–	–	–	(35,022)	(35,022)
Share based payments	–	–	–	–	–	4,427	–	4,427
Vesting of awards within Petropavlovsk PLC LTIP	–	–	–	–	352	(313)	(39)	–
Awards within Petropavlovsk PLC LTIP forfeited	–	–	–	–	–	(453)	453	–
Employee's option lapsed	–	–	–	–	–	(42)	42	–
Revaluation of available-for-sale investments	–	–	–	–	–	(298)	–	(298)
Balance at 31 December 2012	2,891	377,140	130,011	59,032	(14,483)	17,180	142,326	714,097

(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 20 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 reflect changes in the value of the Group's investment in 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 28 to the consolidated financial statements.

9. Operating lease arrangements

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under a non-cancellable operating lease for office premises, which fall due as follows:

	2012 US$'000	2011 US$'000
Expiring:		
Within one year	223	296
Within two to five years	–	261
	223	557

10. Directors' remuneration

There were five Executive Directors who held office at the end of the year (2011: six Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 94 to 111 of this Annual Report.

11. Subsequent events

Please see note 35 to the consolidated financial statements.

Appendix, Glossary and Definitions

References to "the Group", "the Company", "Petropavlovsk" and "IRC"
Petropavlovsk PLC holds a 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 any of its subsidiaries ("Petropavlovsk PLC Group of Companies"). References to "Petropavlovsk" should be read as the Petropavlovsk PLC Group of Companies, excluding the IRC Limited and its subsidiaries ("the IRC Limited Group of Companies"). References to IRC should be read as IRC Limited or the IRC Limited Group of Companies.

Important information
Past performance cannot be relied on as a guide to future performance. Some figures may be rounded. The content of websites referred to in this document does not form part of this document.

Forward-looking statements
This release may include statements that are, or may be deemed to be, forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans","targets", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, targets, future events or intentions. These forward-looking statements include all matters that are not historical facts and speak only as at the date of this document. They appear in a number of places throughout this release and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and expectations of the industry.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates may differ materially from those described in, or suggested by, any forward-looking statements contained in this release. In addition, even if the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained in this release, those developments may not be indicative of developments in subsequent periods. A number of factors could cause developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations (including the US Dollar and Russian Rouble), the Group's ability to recover its reserves or develop new reserves, changes in its business strategy, political and economic uncertainty. Save as required by the Listing and Disclosure and Transparency Rules, the Company is under no obligation to update the information contained in this release.

Nothing in this publication should be considered to be a profit forecast and no statement in this document should be interpreted to mean that earnings per share for the current or future financial years would necessarily match or exceed the historical published earnings per share. This document does not constitute or form part of an invitation to sell or issue, or any solicitation of any offer or invitation to purchase or subscribe for, any securities.

The basis of reporting reserves and resources
Mineral Resource and Ore Reserve estimates included within this document 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, C_1 and C_2 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 are 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, C_1 and C_2 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 C_1 and/or C_2 only; categories A and B are rarely recorded for such deposits).

Appendix, Glossary and Definitions continued

For the year ended 31 December 2012

adjusted earnings per share	adjusted earnings per share (basic) before impairment charges is the profit for the period attributable to equity holders of Petropavlovsk PLC before exceptional items divided by the weighted average number of ordinary shares during the period
alluvial	material which is transported by a river and deposited at points along the flood plain
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
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
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
EPS	Earnings (Loss) Per Share: 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
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
the Foundation or the Petropavlovsk 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
Group	the Company and its subsidiaries
GRI	Global Reporting Initiative
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
HSE Committee	Health, Safety and Environmental Committee
ICBC	Industrial and Commercial Bank of China
ICMC	International Cyanide Management Code
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
IRC	IRC Limited, the Group's Hong Kong-listed subsidiary
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
KPI	Key Performance Indicator, used to monitor progress and performance against strategic objectives and to benchmark the Group's performance
Ktpa	thousand tonnes per annum
LTIFR	Lost Time Injury Frequency Rate: the time lost as a result of an accident or fatality, measured as the number of accidents per million man hours worked
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
OH&S	occupational health and safety
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*

Appendix, Glossary and Definitions
continued

For the year ended 31 December 2012

ounce or oz	troy ounce (= 31.1035 grams)
Outotec	Outotec (Finland) Oy
overburden	material that lies above the ore deposit
placer deposit	see entry for "alluvial"
POX	pressure oxidation
pressure oxidation	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
***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)
tpm	tonnes per month
unit cost of mining	unit costs are the costs incurred by the Group to mine one m^3 of rock and process one tonne of ore
Underlying EBITDA	the result for the period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, amortisation and impairment charges. A reconciliation of profit for the year and underlying EBITDA is set out in note 36 of the consolidated financial statements
Yamal, Yamal region	Yamalo-Nenets Autonomous District of Russia

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The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Email: ssd@capitaregistrars.com

Telephone: 0871 664 0300

(Calls charged at 10p per minute plus network extras)

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Further information
Further information on the Group may be obtained from the Company's website, www.petropavlovsk.net or by contacting the Company's Head Office.

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