Annual Report 2013

PETROPAVLOVSK

About Petropavlovsk

At a glance

Who we are

Petropavlovsk is one of Russia's leading gold-mining companies. Producing a total of 741,200oz of gold in 2013, Petropavlovsk was the second-largest gold producer in Russia.

The Group operates four hard-rock gold mines together with a small number of alluvial operations in the Amur region, Russian Far East, where it has operated since 1994.

In 2002, the Group became one of the first Russian companies to list its shares in London on the AIM Market, using the ticker symbol POG, and subsequently moved up to the Official List of the London Stock Exchange.

What we do

Petropavlovsk is a vertically integrated Group which has expertise across the mining lifecycle, from identifying prospective areas, to exploration, development, mining and processing.

Go to page 08 for the Group's business model.

How we operate

Petropavlovsk is committed to operating in an efficient, safe, responsible and transparent way. In doing so, it is supported by what it considers to be a talented and motivated workforce. Petropavlovsk welcomes a positive, active dialogue with the local communities in the regions in which it operates.

Go to page 18 for more on sustainability.

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Peter Hambro

2013 was the year in which we repositioned Petropavlovsk to become a significantly lower cost, cash generative gold producer in order to reflect the lower gold price environment. As a result of our actions, we were able to reduce our net debt by US$115 million year-on-year ('yoy'), with the rate of debt reduction accelerating towards year end (and subsequently to the end of Q1 2014) due to an increase in production levels. Our current operational plans estimate that we will achieve a similar significant debt reduction in 2014 that should bring net debt to below US$850 million by year end.

The Board and our auditor place emphasis on two matters in Petropavlovsk's annual accounts for 2013 that, if unresolved, would affect the Company's status as a going concern. These are forecast breaches in December 2014 of certain covenants, contained in our current senior debt facilities, which are under review with our lenders, and the need to repay the Group's 4% guaranteed Convertible Bonds due 2015 ('Convertible Bonds'), which mature in February 2015 and of which there are US$310.5 million outstanding. The Board and the Executive Committee, supported by our advisers, have for some time treated the need for a refinancing plan to resolve these issues as one of paramount importance. A plan to execute the refinancing is well advanced and the Board looks forward to announcing this in due course. Petropavlovsk's consolidated financial statements for 2013 are unqualified.

Operationally, the Group performed well in 2013. We increased attributable gold production and the number of ounces sold, notwithstanding significant operational flooding in our region of Russia in 2013. At the same time, we successfully protected the Group from the steep fall in the gold price, which decreased to a low of US$1,196/oz during H2 2013, by selling forward some of our production for future delivery. These two achievements meant that, in spite of the gold price reduction, Group revenue at US$1.2 billion was unchanged from the previous year.

Our TCC/oz including alluvials, at US$1,016/oz, was in line with our guidance and resulted from the planned mining of relatively lower grades and the amortisation of previously deferred stripping costs. I am pleased to say that cost cutting measures in the second half of the year were successful and these measures, together with a 25% reduction in central administration costs, helped us generate net cash from operating activities of US$282 million, a 4% increase on the previous year, and to achieve underlying EBITDA of US$325 million.

We also made considerable headway in reducing our net debt. Thanks to the net cash from operating activities, (including a US$126 million reduction in working capital excluding IRC), reductions in capital expenditure, proceeds of asset sales, and repurchase of Convertible Bonds, net debt was reduced by US$115 million to US$948 million at the year end. This remains a key focus in 2014 and we expect to be able to reduce our net debt position to less than US$850 million by the end of this year.

The Group regularly tests its assets for impairment and, as I explained at the time of our half-year report, we took impairment charges against the value of our investments, reflecting the lower gold price environment in which we found ourselves. There were no material impairments during the second half of the year but an aggregate of US$679 million post-tax impairment charges and write-downs together with other non-cash items, such as depreciation and amortisation, were reflected in a substantial loss for the year.

Since the year end, the gold price and the USD:RUB exchange rate have moved in our favour and the impairments themselves will reduce the future depreciation charge. This means that, with our reduced level of debt and a continuing concentration on cost control, we started 2014 on a better footing. I am pleased to say that Q1 2014 production figures show a 16% yoy improvement over Q1 2013.

The Group's 2014 gold production target is 625,000oz. This lower production target compared to the previous year is due, in part, to the lower grades scheduled to be processed at the Pioneer and Pokrovskiy mines, to the disposal of alluvial assets and also the adjustment of mine plans in response to the lower gold price environment and recent exploration discoveries by the Group.

Pioneer is expected to contribute roughly a third of the Group's production target for the year, Albyn is expected to be the next largest producer, with the balance coming mainly from Malomir's Quartzitovoye zone and the newly discovered Magnetitovoye zone. Overall average cash costs for the hard-rock mines, now representing 95% of our 2014 target production, are expected to fall to US$900-950 per ounce.

Total capital expenditure will remain focused on value-adding projects with a superior return on capital and we expect to reduce this to less than US$100 million in 2014, of which an estimated US$34 million will be spent on exploration.

Cash generation and a reduction in capital expenditure will continue to have a positive effect on net debt.

The great work carried out by our operational team during 2013 has been successfully continued in the first quarter of this year, putting us on track to achieve our production target with production output for the quarter 16% higher than in the previous year. This was achieved due to an almost doubling of gold production at Malomir and Albyn.

The focus for 2014 is to continue building on the success of the cost cutting programme launched in 2013, to conserve cash by restricting discretionary capital and exploration expenditure whilst redoubling our efforts to move newly identified, non-refractory resources at Pioneer and Albyn into mineable reserves.

Looking further forward one must remember that, with the postponement of the POX Hub, our production remains entirely dependent on resources of non-refractory ore until POX comes on line. We are fortunate to have sufficient non-refractory material to support our estimated average gold production of 600Koz per year from 2015 to 2019 and we expect that somewhat higher grades and considerably lower stripping ratios will enable us to achieve average TCC/oz of c.US$750/oz (using 2013 price levels and foreign exchange rates) during that period. Since this production will come from areas adjacent to our current processing facilities, additional capital expenditure should be minimal.

Successful exploration has always been the key to our future and 2013 was no exception. Following the decision to postpone the POX project and in order to give clarity to our Resource and Reserve statistics, in this report we break them down into non-refractory and refractory categories.

In 2013, our focus on exploration for non-refractory ore delivered an increase in non-refractory resources of c.1.5Moz. to 13.8Moz at the year end (after c.0.8Moz of depletion). Our non-refractory reserves declined by 0.4Moz to 4.39Moz, mostly due to depletion. Our focus on adding non-refractory resources and reserves will continue in 2014, and in particular will focus on converting newly established non-refractory resources into reserves at, and near, the Group's ore processing facilities.

At the same time refractory resources remained the same as at the end of last year and refractory reserves decreased by 0.34Moz to 4.82Moz, mainly due to the reclassification of some material at Pioneer and Malomir into non-refractory reserves. These refractory ounces will be utilised if the POX plant becomes operational in the future.

I was delighted to welcome Mr. Dmitry Chekashkin as an Executive Director and as Chief Operating Officer of the Company and wish every good fortune to Ms. Rachel English, who stepped down as a Non-Executive Director in order to take up a directorship of African Barrick Gold plc as well as to Mr Doug King who retires as our Audit Partner.

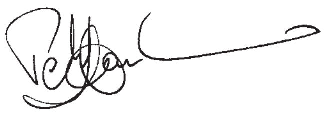
Our iron ore subsidiary, IRC, which is accounted for on a 'held-for-sale' basis because of the status of the transactions which are the subject of the subscription agreements with General Nice and Minmetals Cheerglory, continues to grow and develop in the way I hoped it would. In 2013, it exceeded its production targets for the third consecutive year at Kuranakh and increased its underlying Kuranakh segmental EBITDA by 40% to US$22.8 million. At the same time construction and development work at K&S remains on track for first commercial production in the second half of 2014.

Over 70% of General Nice's commitment under the IRC subscription agreement has been received, although a further US$88 million of additional funding which was due to be received by 22 April 2014 has been further delayed. We understand from IRC that General Nice has indicated that it intends to make a further payment of c.US$20 million by the end of April 2014. Once General Nice has completed in full its Stage 2 subscription, under the terms of the subscription agreement, Minmetals Cheerglory, will also invest c.US$30 million. At the end of the year IRC had almost US$92 million in cash.

The recent sharp decline in the gold price and the Group's extensive programme of capital expenditure during the last several years resulted in an increase in the Group's indebtedness and reduction of our forecast underlying EBITDA. Although we have successfully executed a deliberate programme to reduce net debt to less than US$1 billion at the end of 2013, it is clear that the Group requires the successful completion of a refinancing process to strengthen its balance sheet in 2014. In the absence of such refinancing, our forecast show breaches of certain covenants in our banking facilities at 31 December 2014, including the facility with ICBC to fund the development of the K&S mine which is guaranteed by the Company. In addition, the US$310.5 million outstanding Convertible Bonds fall due for repayment in February 2015 and the Group does not currently have sufficient committed funding to refinance this debt.

In recognition of this, the Group has developed a refinancing plan which includes negotiations with the Group's senior lenders, including ICBC, (on relaxation of certain covenants in the Group's banking facilities) and the refinancing of the Convertible Bonds. The Directors will seek shareholder approvals for these actions if necessary in due course.

Finally, it is particularly worth noting that by the time of the AGM the Group will have reached the 20th Anniversary of its foundation.



Peter Hambro,
Chairman

Gold Market Overview

2013 – an overview
2013 proved a challenging year for gold. The Gold PM Fix ended the year down 29% at US$1,205/oz, the first annual loss since 2001. However, to simply look at the 'paper price' of gold would not be telling the whole story, since 2013 saw the gold industry face a number of challenges including a lower gold price (which put into question the feasibility of some projects), increasing production costs, write downs and impairments, as well as mounting pressure from shareholders over disappointing returns. Furthermore, improved consumer sentiment on the back of perceived improvements in the global economy and stock markets, encouraged some investors to reduce their gold holdings.

The gold price in 2013
The Gold PM Fix traded in a range between US$1,192/oz – US$1,694/oz, averaging US$1,411/oz over the course of the year, down 15% compared to 2012. The majority of Petropavlovsk's revenue stream in 2013 was based on the price the Group received from its gold sales and hedging contracts. Petropavlovsk has no control over the open market price.

The industry's response to a lower gold price
In response to a volatile gold price environment, a number of gold producers took the decision to postpone their development projects, aggressively cut capital expenditure, focus on cost optimisation, dispose of assets and hedge production to secure cash flows and shore up balance sheet weakness. Petropavlovsk was one of the first to react to the drastic drop in the gold price in 2013, developing and implementing a number of cost saving and efficiency measures following a review of the Group's operations in Q2. The programme was designed to deliver financial and operational benefits in 2013 and beyond. In addition, Petropavlovsk's current policy is to hedge approximately 50% of its future gold production, for a forward period of one year.

Supply and demand dynamics
2013 saw unprecedented demand for gold jewellery, bars and coins, particularly from China and India, a trend seen previously. Global jewellery demand increased 17% compared to 2012 to c.71Moz, while bar and coin demand increased c.28% to c.53Moz. Together, China and India accounted for c.58% of jewellery demand and c.46% of global bar and coin demand in 2013.

A decision by the Reserve Bank of India to enact a variety of measures to restrict gold imports resulted in higher asking prices being paid for physical gold, yet underlying demand remained strong, at times supplemented through supply via unofficial channels. Chinese consumers were also willing to pay a premium to spot prices, due to a combination of record demand against supply constraints. With gold falling 30% in H1 2013, buyers in Asian and Middle Eastern markets took advantage of the price volatility. In contrast, consumers in Western markets reacted with some delay, instead waiting until the final months of the year to make their purchases.

Although softer than in previous years, central bank gold demand amounted to c.12Moz in 2013. 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. Interestingly, Russia was amongst the keenest of buyers.

ETFs acted as a significant source of gold supply throughout 2013. According to data compiled by UBS, the quantity of gold held by ETFs declined c.33%, from c.89Moz in January 2013 to c.60Moz at year end, with sellers encouraged to divest their holdings due to a mix of good economic data, improved sentiment, the prospect of reduced QE stimulus as well as a strong stock market performance. However, it is worth noting that much of the gold coming onto the market, effected by ETF sales, was readily consumed by demand in China, India and the Middle East, with suggestions that large quantities of gold headed to Asia, via Switzerland, where it was refined into smaller, more manageable sizes, as preferred by buyers in that region.

On the supply side, global mine production saw limited growth year on year, with an increase of just 5%, while gold price weakness resulted in a 14% decline in recycled gold coming to the market versus 2012. It is interesting to note that both South Africa, plagued by labour unrest issues and the USA, hampered by lower grades, both experienced a decline in mine supply.

As one of the top three Russian gold producers, Petropavlovsk produced a record 741Koz of gold in 2013, a 4% increase on 2012, despite extensive flooding of the Amur region. The increase was driven by a particularly strong performance at the Malomir and Albyn mines. The Group is targeting 625Koz of production in 2014, all from non-refractory sources.

Asset quality
The scarcity of substantial new discoveries alongside a trend towards lower grade production looks set to continue weighing on the industry. A recent study conducted by NRH Research identified 580 deposits globally, which contained 1Moz or more, with an average grade of 1.01g/t. Of the 580 assets identified, 199 were producing mines with an average grade of 1.18g/t while 381 were undeveloped deposits with an average of 0.89g/t. Although each project is unique, it is generally accepted that a sustainable, upward trend in the gold price is required for a low grade project to be economically viable and successful, a trend that some suggest broke in 2013 as gold fell below US$1,200/oz. Without a higher gold price, many of the 250 undeveloped, low grade deposits are far less likely to be commissioned, whilst at the same time production from existing mines is set to continue to decline.

The global economy and related sentiment
Traditionally, gold has been viewed not only as a portfolio diversification tool, but also as a hedge against inflation, currency devaluation and economic and political uncertainty. The global economic recovery continued in 2013, with many markets and indices around the world hitting record highs, prompting some to rotate out of gold and into other assets.

The year ahead
Gold has had a positive start in 2014, rising 5% during Q1. However, it is likely to be another tough year for producers as they continue to face the prospects of a volatile gold price and associated margin pressures, possible reserve downgrades, further impairments, additional cost cutting and improvement in the global economy. The interplay between interest rates and inflation as well as the direction of the equity markets will also play a part in deciding where the gold price may head next. Regardless, Petropavlovsk will continue to closely monitor developments and will seek to act decisively and in a timely manner.

The average annual gold price declined 15% in 2013 to US$1,411/oz

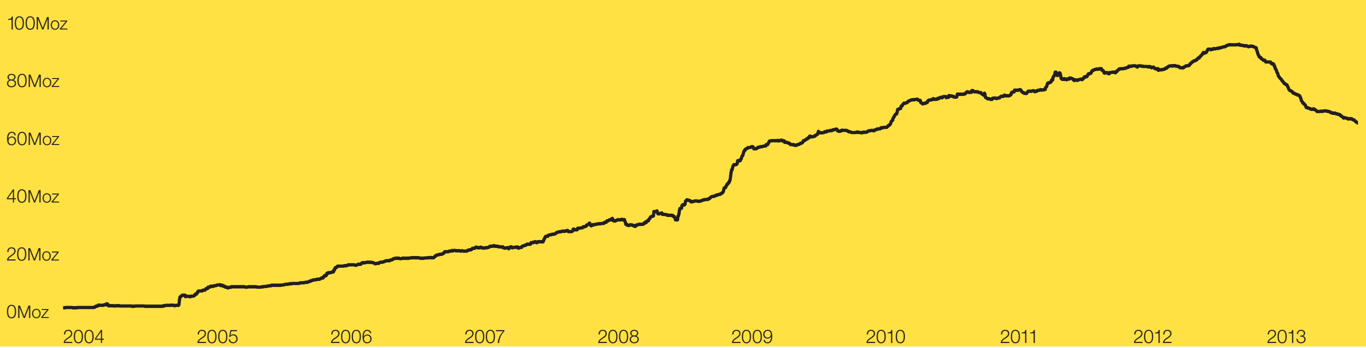
2013	**1,411**
2012	1,668
2011	1,571
2010	1,225
2009	973
2008	872
2007	697
2006	604
2005	445
2004	410
2003	364
2002	310
2001	271

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

Gold has appreciated by 344% since 2001 (US$/oz)

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

Gold ETFs held close to c.60Moz of gold as at 31 Dec 2013, a decline of 33% vs. 2012



Source: *UBS.*

Our Business Model and Core Strengths

Our business model

Our strategic objectives are supported by a business model which involves developing mineral assets through the entire mining lifecycle. The process begins with the identification of the most prospective areas of geology, moving to exploration, thereafter developing and effectively using our operational expertise to produce gold. This business model has secured our place as Russia's second-largest gold producer.

Identify

Utilising our in-house expertise, the analysis of data and other geological information, enables us to identify the most prospective licence areas for which we can apply.

Explore

The expansion of our resource base is essential in order to sustain our future growth. The majority of our work is carried out at areas close to our operations.

See pages 51 to 53 for more on the Group's exploration programme during 2013.

Develop

Our business model envisages utilising our in-house expertise to timely and efficiently advance our reserves into production to maximise returns.

Operate

Our business model envisages employing operational efficiency and expertise when we mine and process our ore, utilising the most suitable processing methods.

See pages 38 to 49 for more on the Group's operations and development during 2013.

= Gold

Our end product is doré gold bars. These are sent to a refinery in the Krasnoyarsk region of Russia and then sold to Russian banks.

Operating responsibly

Throughout the life of our mines, we aim to operate in an efficient, safe, responsible and transparent way. In doing so, we are supported by what we consider to be a talented and motivated workforce. We welcome a positive, active dialogue with the local communities in the regions in which we operate. For us, operating responsibly is also providing financial support and assistance to these local communities, particularly in the spheres of education and healthcare. This is carried out through the Petropavlovsk Foundation.

See pages 16 to 25 for more on how the Group operated sustainably during 2013.

= Delivering a sustainable future

Operating responsibly ensures the impact of our operations is positive and can be sustained into the future. We value the support of our employees and local communities and see this as key to our future success.

Effective governance and risk management

The Board of Directors is ultimately responsible for overseeing the Group's performance. It is essential for us that the Board is at the forefront of all new industry developments and ensures effective governance and risk management to safeguard the success of the Company and the interests of shareholders. The Group has in place robust internal control systems to evaluate, monitor and mitigate risks which could impact the Group's performance at all stages of the business model.

For additional information, see pages 74 to 80 for the Corporate Governance Report.
See pages 26 for 37 for more on how we manage risks.

The Group is a major shareholder in IRC Limited ('IRC'), a producer and developer of industrial commodities with its shares quoted on the Hong Kong Stock Exchange (Stock Code 1029). IRC is classified as 'held for sale' and presented as a discontinued operation, in the Group's Financial Statements. IRC is thus excluded from the Group's business model. Further details on IRC may be found on page 50.

Our core strengths

Our business model is supported by the business relationships, resources and other inputs that are necessary for the successful continuation of the business. We consider these inputs to be our core strengths. They are integral to the way in which we operate.

Our core strengths

Quality of assets and geological potential

We operate some of the largest gold mines in Russia. Our core Group's assets are located on and around a major belt of gold mineralisation. Many licence areas remain under-explored, thus offer the potential for further growth.

Knowledge and expertise

We have operated in Russia since 1994. Our management team and Executive Directors are predominantly Russian nationals. Many have been with the Group since inception and possess a range of skills across the mining spectrum, knowledge of the Russian gold mining industry and an understanding of local conditions.

Location and infrastructure

Russia has an established mining tradition and a comprehensive legislative framework for the mining sector. The Amur Region, our core area of focus, has a developed infrastructure including railways, roads and access to hydro-electric power.

Technology and innovation

We benefit from Russia's established mining tradition, which has favoured the development of scientific and technical expertise. Our scientific resource base supports efficient and safe production today and will enable us to introduce new and innovative processing methods to unlock more value from our assets tomorrow.

In-house expertise and flexible approach

Our business plan enables us to adopt a flexible approach to mine development: we have the flexibility to rapidly fast-track newly-discovered non-refractory reserves at our mines into doré gold bars and to adjust our mine plans efficiently in line with external factors.

Skilled and motivated workforce

We seek out talented and motivated individuals who want to work for us. We are committed to advancing career development opportunities. We offer employee benefits as well as safe, good working conditions.

Responsible mining

We value safeguarding our employees' welfare and minimising and mitigating the impact of our operations on the environment in line with Russian legislation. We value the support of local communities.

Our core strengths assist us in pursuit of our strategic objectives

Our strategy

Our vision provides a clear definition of the future we wish to attain. Our mission outlines how we believe we can operate in order to attain this vision. Our strategy defines how we believe we can fulfil our mission while adhering to our values. Our strategy translates into a clear set of strategic objectives, the fulfilment of which is supported by our core strengths and business model. Our risk management framework outlines the steps we are taking to safeguard fulfilling our mission and strategy. In order for us to ensure we are running our business in line with our strategic objectives, the Board of Directors developed a set of key performance indicators ('KPIs') which measure our progress against our strategic priorities.

Both our risk metrics and KPIs are monitored regularly by both the Board of Directors and its Executive Committee. While the Board is ultimately responsible for setting our strategic priorities, every employee contributes to their successful delivery.

Our vision

Our vision is to be one of the leading global gold producers, committed to operating efficiently, responsibly and sustainably.

Our mission

We aim to generate and preserve value for all our stakeholders by maximising the value of our mineral assets through responsibly and sustainably harnessing our expertise in the exploration, development and operation of gold mines. These activities are focused on producing an essential commodity, create jobs and generate wealth for various groups of stakeholders from our workers in the Amur region, Russian Far East, to our stakeholders across the world.

Our values

Our values are integrity and responsibility.

Our strategy

Our strategy is to generate responsible and sustainable growth via investment in new processing technologies and innovations and the geological exploration of new and existing licence areas in order to produce steady cash flows for the benefit of all stakeholders.

Risks to strategy and strategic objectives monitored

Our strategic objectives

1. Value-adding exploration

2. Asset development using in-house expertise and new technologies

3. Operational efficiencies

4. Optimising financial return

5. Operate responsibly and safely

KPIs used to monitor progress against fulfilment of strategy and strategic objectives

Our Strategic Objectives

1

Value-adding exploration

What this means and why it is important to us

We aim to achieve sustainable, organic growth at our existing operations through in-house exploration to find new, quality gold reserves. In order to prolong the life of mines and fast track what we find into doré gold bars with minimum capital expenditure, we continue to explore our mine sites and to look for opportunities at licence areas adjacent, or close, to our existing processing facilities. In the longer term, we intend to seek out resources which could be potentially suitable for processing in our POX Hub, once this is commissioned.

Key highlights from 2013

- The identification of an additional 5.7Moz of gold in non-referactory ore resources in accordance with the Russian GKZ Classification System, of which 2.1Moz have been converted into JORC and included in the JORC statement as at 31 December 2013;
- Total Group JORC Resources increased by 740Koz from 25.06Moz to 25.8Moz after 815Koz depletion, 542Koz of sales and 14Koz of write-offs during 2013;
- Approximately 2.1Moz were added in total JORC Mineral Resources at the Group's main mines as a result of successful exploration activities;
- The average grade of Mineral Resources stayed virtually unchanged in spite of depletion of higher than average reserve grade;
- Total JORC Ore Reserves decreased by c.800Koz from c.10Moz to c.9.2Moz, due to depletion and write offs;
- The new additions in Ore Reserves at Pioneer, Albyn, Malomir and Burinda in part offsets depletion and write offs;
- All new additions of reserves are non-refractory;
- Ore Reserves and Mineral Resources support production from non-refractory ore until at least 2019, justifying the slow down of the pace of development of the POX Hub;
- Strong exploration results received from Pioneer, despite difficult terrain and localised flooding;
- Partial upgrade of *Inferred* Resources at Burinda into JORC *Indicated* and *Probable* Ore Reserves;
- Establishment of new non-refractory ore body at Malomir (Magnetitovoye);
- Increase in the overall Resource base at Albyn and the average grade of Albyn Resources due to the successful exploration of the Elginskoye and Afanasevskaya (Unglichikanskoye deposit) licence areas;
- JORC gold Ore Reserves for the Yamal assets written off and removed from the Group's Reserves statement following the assets' impairment in 2012.

2014 plans

- Continued work to convert resources under the Russian GKZ Classification System into JORC;
- Continued work to upgrade Mineral Resources into Ore Reserves;
- Continued exploration within areas adjacent to operational mines with a view to improving the non-refractory resource and reserve base;
- Budgeted capital expenditure for exploration of US$34 million.

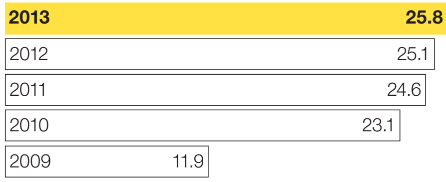
Additional future plans

- Recommence exploration for refractory resources once the POX Hub has been commissioned, the exact timing of which is dependent on the Group's refinancing plans.

KPIs

Mineral Resources

Mineral Resources (Moz)



Definition

A Mineral Resource is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, 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 Mineral Resources through exploration at sites at or close to current operating plants. Implementing this strategy has enabled the Group to replenish gold Resources depleted from its operations in recent years and increase its Mineral Resource base.

Progress in 2013

During 2013, the Group added c.2.1Moz to its Mineral Resources. Taking into account depletion of c.815Koz from mining, c.540Koz of disposals and c.14Koz of write offs, this resulted in a net increase of c.740Koz. All new additions were in areas at or in close proximity to the Group's four operational mines and were a result of the Group's exploration programme.

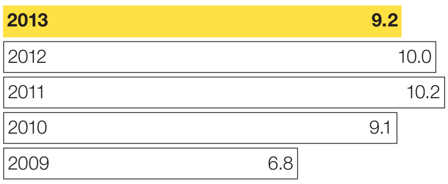
Going Forward

Going forward, the Group is striving to continue to develop a high quality non-refractory and refractory resource base.

See pages 54 to 59 for for more information on the Group's Ore Reserves and Mineral Resources.

Ore Reserves

Ore Reserves (Moz)



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 and quality of the Group's mining assets and its ability to support the life of operating mines at profitable levels. As part of its strategy, the Group has been placing a strong emphasis on finding new Ore Reserves through exploration. By implementing this strategy, the Group has been able to replenish the majority of its Ore Reserves depleted from its operations.

Progress in 2013

As at 31 December 2013, JORC Ore Reserves stood at c.9.2Moz. This change of c.800Koz compared to the previous year was the result of depletion from mining during the year and write offs, notably at the Group's operations in Yamal, as a result of the lower gold price environment.

Going forward

Going forward, the Group is striving to continue to develop a high quality non-refractory and refractory resource base.

See pages 54 to 59 for for more information on the Group's Ore Reserves and Mineral Resources.

2

Asset development using in-house expertise and new technologies

What this means and why it is important to us

Owning high-quality assets is one thing, knowing how to profitably and efficiently develop them is another.

Various in-house companies which specialise in a specific area of mine development operate within the Group. The work of these companies has enabled the Group to convert its assets into producing mines and to optimise the processing parameters at its existing mines. In addition, these companies have also had a positive affect on the Russian mining industry as a whole through their third-party work.

Key highlights from 2013

- Decision taken to slow down the pace of development of the POX Hub following the drop in the gold price;
- Continued work on the POX Hub to fulfil existing contractual obligations;
- The flotation plant at Malomir mostly completed;
- Increase in processing capacity at Pioneer to 6.6Mtpa.

2014 plans

- Honour existing contracts for the POX Hub and complete only essential development work.

Additional future plans

- Commission the POX Hub and the related flotation plant at Malomir, with the exact timing dependent on the availability of financing.

Measuring

It is difficult to recognise the contribution made by the Group's in-house teams, in a quantifiable way. For us, acknowledging the recognition our in-house teams have received from third-parties is a better way to measure our success.

- Mining and metallurgy R&D institute Irgiredmet works on more than 200 projects annually;
- R&D company Gidrometallurgiya provides scientific research into the POX Hub and has particular expertise with refractory ores. The centre is led by a recognised leading professor, Yakov Schneerson, who is jointly accredited with the use of autoclave-hydrometallurgical technology on the processing of pyrrhotite concentrates. He has published more than 300 scientific papers and holds more than 65 patents and inventions;

Our Strategic Objectives continued

- Network of laboratories which support 100% of the Group's analytical needs as well as conducting work for third parties;
- The Group operates a unique metallurgical test plant, which enables it to replicate entire processing operations on a smaller scale;
- Group laboratories use a wide-range of analytical methods, including: fire assaying, atomic absorption, spectroscopy and mineralogical analysis, x-ray crystallography and physical property determinations;
- Group laboratories also analyse samples to monitor discharges to water, air and soil, thus minimising the environmental impact of the Group's operation and ensuring each mine operates within Russian environmental legislation.

3

Operational efficiencies

What this means and why it is important to us
We understand that to realise the full value of our assets, we need to deliver on our production targets and generate healthy gold sales at competitive margins. To achieve this, it is essential that we operate efficiently. This means careful mine planning and generating continuous improvements in productivity.

Key highlights from 2013

- Annual gold production of 741,200oz, within the Group's revised guidance;
- Flooding caused by extreme adverse weather conditions successfully overcome;
- A programme of mine optimisation, cost control and cost-cutting measures announced in May 2013;
- Total average costs of US$1,016oz and total cash costs for hard-rock mines of US$976/oz;
- H2 2013 total average costs per ounce of US$920/oz, reduced from US$1,157/oz in H1.

2014 plans

- 2014 production target of c.625,000oz: lower than the previous year mainly due to the sale of of some high-cost alluvial operations and lower grade ore scheduled for processing at the Pioneer and Pokrovskiy mines;
- The Group expects to be maintaining its 2014 TCC/oz from hard-rock operations as acheived in the second half of 2013.

Additional future plans

- Production plan for 2015-2019 envisages annual average production of c.600,000oz, with some year-on-year variations;
- Production schedule is based on existing mines and their satellite deposits;
- An estimated TCC/oz for hard-rock mines of less than US$750/oz for the period 2015-2019 (assuming 2013 price levels and foreign exchange rates).

KPIs

Production

Total attributable gold production ('000oz)

2013	**741.2**
2012	710.4
2011	630.1
2010	506.8
2009	486.8

Definition
Measured in troy ounces, attributable gold 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, 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 2013
Annual gold production for 2013 was 741,200oz. This was within the Company's revised guidance following extensive flooding caused by extreme adverse weather conditions which severely hampered mining in Q3.

Going forward
The Group is targeting gold production of 625,000oz for 2014. This lower production target compared to the previous year is due, in part, to the lower grades scheduled to be processed at the Pioneer and Pokrovskiy mines, to the disposal of alluvial assets and also to the adjustment of mine plans in response to the lower gold price environment and recent exploration discoveries by the Group.

The Group's production plan for 2015-2019 projects annual average production of c.600,000oz, with some year-on-year variations. This production schedule is based exclusively on gold production from the Group's existing mines and their satellite deposits, and do not include production from the POX Hub and the related flotation plant at Malomir.

Operating expenses

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

2013	**976**
2012	805
2011	586
2010	548
2009	303

Total average cash costs (US$/oz)

2013	**1,016**
2012	875
2011	662
2010	608
2009	309

Definition
Cash costs for hard-rock mines is the cost of producing and selling an ounce of gold from the Group's hard-rock mines (Pokrovskiy, Pioneer, Malomir and Albyn). 89% of the Group's 2013 production came from its hard-rock operations. This is estimated to rise to 95% in 2014. The Group looks at cash costs at its hard rock mines separately to its alluvial operations as cash costs for alluvial mining are made up differently, reflecting the different nature of this type of mining. 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. Mining tax, comprising 6% of the gold price, is also a variable cost dependent on the production volume and the realised gold price.

The total average cash cost per ounce is the cost of producing and selling an ounce of gold from a combination of the Group's hard-rock and alluvial operations.

Relevance
The Group closely monitors its future and projected costs to track and benchmark the ongoing 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.

Progress in 2013
Total cash costs for hard-rock mines were US$976/oz for 2013. This increase compared to 2012 was primarily due to a scheduled decrease in grades processed at Pioneer, Malomir and Albyn, a decrease in recovery rates at Pioneer and Pokrovskiy and an increase in stripping ratio at Pioneer, Albyn and Malomir. In addition, industry-specific cost inflation saw electricity costs rise by 7%, the cost of chemical reagents rise by 15%, the cost of diesel by 3% and consumables by up to 10%.

Total cash costs for Pokrovskiy were also adversely affected by the substantial amortisation of deferred stripping costs.

The Group's total average costs are higher than total cash costs for hard rock mines as costs for alluvial mining are typically higher. 2013 total cash costs for the Group's alluvial operations were US$1,319/oz, in line with the previous year in spite of inflation. H2 2013 total average costs per ounce were US$920/oz, down from US$1,157/oz in H1 2013.

Going forward
The Group expects to maintain in 2014 TCC/oz at the level acheived in the second half of 2013 (US$900/oz – US$950/oz).

Although alluvial mining is less capital-intensive than hard-rock mining, following the decline in the gold price in 2013, the Group took steps to scale back production from high-cost assets with the sale of the alluvial operations held by OJSC Berelekh. This is expected to benefit total average costs going forward as a smaller proportion will be attributed to alluvial production.

Assuming 2013 price levels and foreign exchange rates, the Group is estimating its TCC/oz for hard-rock mines to be less than US$750/oz for the period 2015-2019 due to the effects of the cost-cutting programme, scheduled higher grades and lower stripping ratios, when compared with the current mining operations.

Further information on 2013 cash costs may be found on page 65 of this report.

4

Optimising financial return

What this means and why it is important to us
To further develop the business it is essential that we strive to allocate cash resources wisely, employ careful financial planning and achieve safe levels of net debt.

Key highlights from 2013

- Group revenue maintained at US$1.2 billion (2012: US$1.24 billion), despite a decrease in the realised gold price;
- Record gold sales of 736,300oz (2012: 703,200oz);
- Average realised gold sales price of US$1,519oz (2012: 1,670oz);
- Positive contribution of US$107.7 million to revenue and US$146/oz to the average realised golf price from forward contracts of 444,292oz which matured during the year;
- Underlying EBITDA of US$325 million (2012: US$499 million);
- Loss from discontinued operations of US$199 million, including US$180 million of exceptional items compared to US$245 million loss in 2012 which included US$219 million of exceptional items;
- Net loss of US$713 million (2012: US$244 million loss), largely attributable to an aggregate of US$679 million of post-tax impairment charges and write-downs;
- Development of new projects on hold in order to reduce the Group's capital expenditure requirements;
- Net cash from operating activities of US$282 million (2012: 272 million);
- Net debt as at 31 December 2013 of US$948 million, down by US$115 million over the Period mainly due to positive operating cash flows and lower capital expenditure;
- The Company's internal model is forecasting breaches in December 2014 of certain financial covenants contained in its current senior debt facilities, which are under review with its lenders, if refinancing plans are not implemented. The Company also needs financing in order to repay Convertible Bonds due in February 2015.

2014 plans

- A plan to execute refinancing is well advanced and will be announced in due course;
- 2014 (maintenance, development and exploration) capital expenditure budget of US$94 million (including existing commitments in relation to the POX Hub);
- In line with the Group's strategy of debt reduction, net debt is expected to decrease below US$850 million by the end of 2014, assuming a US$1,250/oz – US$1,300oz gold price.

Additional future plans

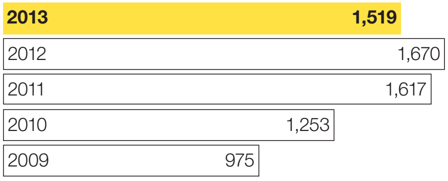
- The Company's current funding plan assumes capital expenditure limited to exploration and maintenance with no commissioning of the Group's POX facilities during this five-year period.

Our Strategic Objectives continued

KPIs

Sales

Average realised gold sales price (US$/oz)



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.

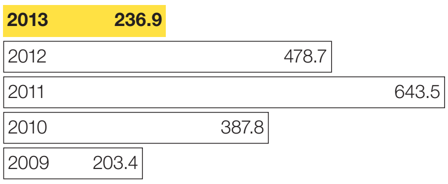
Relevance
As gold is the key commodity produced and sold by the Group, the average realised gold sales price is a key driver behind the Group's revenues.

Performance in 2013
The Group sold a record 736,300oz of gold in 2013, a 5% increase on the amount sold in 2012 (703,200oz). The average realised gold sales price for 2013 was down 9% compared to 2012 at US$1,519/oz (2012: US$1,670/oz). The average realised gold sales price was lower than in 2012 due to a fall in global gold prices: please see pages 06 to 07 for more information on market trends. However, the full effect of the fall in global gold prices was partly mitigated by the increase in volumes of gold sold and the effects of the Group's timely programme of forward selling (hedging) a proportion of its gold production; forward contracts to sell a total of 444,292 ounces of gold matured during the year and contributed US$107.7 million to revenue and US$146/oz to the average realised gold price.

Going forward
As at 31 December 2013, the Group had forward sales contracts of 279,138oz at an average gold price of US$1,429/oz. The Group has subsequently entered into contracts to sell a further 85,115oz at an average price of US$1,250/oz, which all mature in 2014.

Further details on the components of Group revenue, cash flow and hedge arrangements may be found on page 61.

Capital expenditure (for precious metals operations) (US$m)



Definition
Capital expenditure (for precious metals operations) ('gold capex') is the funds required by the Group to undertake exploration, develop its gold assets and keep its current plants and other equipment at its gold mines in good working order.

Relevance
Capital expenditure is necessary in order to both maintain and develop the business, however gold capex requirements need to be balanced with the funds available to the Group.

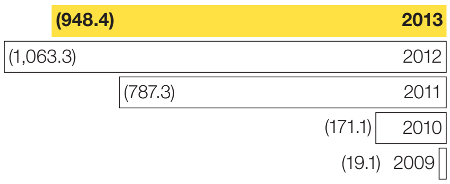
Performance in 2013
The Group spent an aggregate of US$236.9 million on its gold project compared to US$478.7 million invested in 2012. The key areas of focus this year were on the further development of POX, completion of Malomir (including flotation lines), Albyn and Pioneer and on-going exploration related to the areas adjacent to the ore bodies of the main mining operations.

Following the drop in the gold price in Q2 2013 and the success of the Group's exploration programme, the Group decided to slow down the pace of development of the POX Hub and, later, postpone its completion. Accordingly, from May 2013, the Group restricted its activities to those which were subject to existing contractual commitments. This reduced pressure on the Group's capital expenditure requirements.

Going forward
The Group is targeting a further significant reduction in 2014 total gold capex to US$94 million. This is mainly due to an expected 68% reduction in development and maintenance expenditure (to US$60 million), with spending focused on expansion of tailing dams at Pioneer and Albyn and the fulfilment of existing contractual commitments for the POX project and a budgeted 28% reduction in exploration expenditure (to US$34 million) with work to be focused primarily on areas supporting production at the Group's existing mines.

A breakdown of capital expenditure may be found on page 68 of this Annual Report.

Net debt (US$m)



Definition
Net debt is set out in note 30 to the financial statements. Net debt is incurred in order to assist with the financing of projects development.

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

Performance in 2013
Net debt as at 31 December 2013 was US$948 million, down by 11% over the period mainly due to positive operating cash flows (including a reduction in working capital) and lower capital expenditure.

The purchase, and subsequent cancellation of 18.3% of the Group's Convertible Bonds resulted in a reduction of c.US$19.4 million in the Group's net debt.

The Group is continuing to classify IRC as 'held for sale' and it is presented as a discontinued operation. Thus, as at 31 December 2012 and 31 December 2013, net debt excludes IRC.

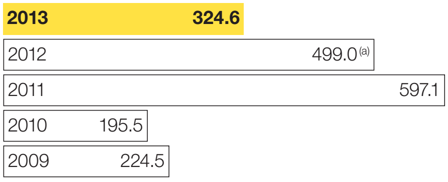
Going forward
In line with the Group's strategy of debt reduction, net debt is expected to decrease below US$850 million by the end of 2014, assuming a US$1,250/oz – US$1, 300/oz gold price.

The Group is striving to reduce its net debt going forward. The Group anticipates that cash generation and its budgeted reduction in capital expenditure will continue to have a positive effect on net debt. The Group is developing a complex refinancing plan, the details of which will be announced in due course.

Net Debt is as set out in note 30 to the consolidated financial statements.

Earnings

Underlying EBITDA (US$m)



(a) 2012 figure has been restated to reflect the fact that IRC is presented as a discontinued operation.

Definition
Underlying EBITDA is the profit / (loss) for the period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, amortisation and impairment charges.

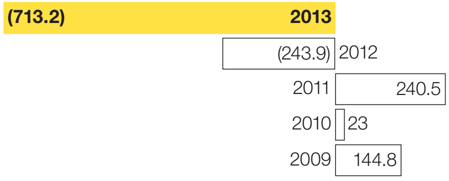
Relevance
Underlying EBITDA is an indicator of the Group's ability to generate operating cash flows which are the source of funding for the Group's working capital requirements, capital expenditure and debt service obligations.

Performance in 2013
Underlying EBITDA was down 35% for 2013 at US$325 million (2012: US$499 million), mainly due to lower gold prices and higher production costs.

Going forward
The Group aims to continue to sell gold at competitive margins, which will, amongst other factors, influence the Group's future EBITDA levels.

A reconciliation of the loss for the year and underlying EBITDA is set out in note 35 to the Consolidated Financial Statements.

Profit / (loss) for the period (US$m)



Definition
Profit / (loss) for the period is calculated by deducting operating and net finance expenses, taxation and any relevant share of results in associates and joint ventures for the applicable years and from total revenue.

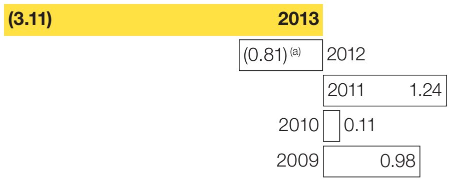
Relevance
Profit / (loss) for the period is often referred to as the 'bottom line' of the income statement and is the income attributable on a per share basis when it is divided by the weighted average number of shares outstanding during the reporting period.

Performance in 2013
Net loss for the period was US$713 million compared to a US$24 million net loss in 2012. Net loss for the period was primarily affected by the following: decreased operating profit mainly due to lower gold prices and higher production costs, an aggregate of US$498.5 million post-tax impairment charges related to precious metal operations, US$28.9 million impairment charges related to IRC and a further US$151.6 million write-down of IRC's net assets to fair value based on IRC's market share price as at 31 December 2013.

Going forward
The Group aims to continue to sell gold at competitive margins, which will, amongst other factors, influence the Group's future Profit / (loss) for the Period.

Further information on how exceptional items affected profit / (loss) for the period may be found in notes 6, 9 and 17 to the consolidated financial statements.

Basic (loss) / earnings per share before exceptional items (US$)



(a) 2012 data has been restated to reflect the fact that IRC is presented as a discontinued operation.

Definition
Basic earnings per share ('EPS') is the profit or loss 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.

Our Strategic Objectives continued

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

Performance in 2013
In 2013, the Company generated a loss per share of US$3.11 which reflects the share of net loss for the period attributable to the equity shareholders of the Company. The weighted average number of Ordinary Shares in issue during the period increased from 196,296,373 in 2012 to 196,415,932 in 2013.

Going forward
The Group aims to continue to sell gold at competitive margins, which will, amongst other factors, influence the Group's future EPS.

A breakdown of the components in EPS may be found in note 11 to the consolidated financial statements.

5

Operate responsibly and safely

What this means and why it is important to us
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 which we operate. This approach remains fundamental to the way in which we do business. Safeguarding employee welfare, investing in society and mitigating our impact on the environment are top priorities for the Group.

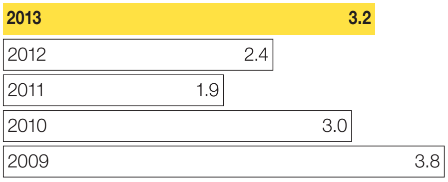
Key highlights from 2013
- Lost Time Injury Frequency Rate ('LTIFR') of 3.27 accidents per million man hours worked recorded;
- Continued investment into the Petropavlovsk Foundation;
- System for reporting carbon emissions developed and first carbon emissions reported.

Key plans for 2014
- Improve safety performance at all sites;
- Targeting reduction in LTIFR;
- Ongoing environmental monitoring at all sites to ensure full compliance with Russian legislation;
- Continued investment in the Petropavlovsk Foundation;
- Continue to develop motivated and talented employees;
- Monitoring and reporting of carbon emissions.

Additional key future plans
- Evaluate effectiveness of safety improvements;
- Review carbon emissions data to analyse where improvements could be made.

KPIs

Lost Time Injury Frequency Rate

LTIFR


Definition
Lost Time Injury Frequency Rate ('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 for the Group excludes IRC, which has separate HSE management systems.

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 in order 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 the number of 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 2013

As at 31 December 2013, the Group had recorded 61 lost time accidents, compared to 47 in 2012. Regrettably, the 61 accidents include two fatal accidents (2012: zero). See page 23 for further details. Of the remaining 59 accidents which occurred in 2013: 22 were slips, trips or falls which occurred either when getting in or out of trucks or other mining machinery or due to the winter conditions, 20 were machinery-related accidents, 11 were vehicle-related accidents and four were accidents involving electricity. The remaining two were considered to be very minor in nature. These accidents resulted in a LTIFR of 3.27 per million man hours worked.

Going forward

Going forward, the Group is aiming for a low LTIFR and zero fatalities by seeking to improve on existing robust OH&S systems.

Turn to pages 22 to 23 for more information on health and safety performance during the year.

Greenhouse gas ('GHG') emissions

Combustion of fuel and operation facilities (Tonnes of CO_2e)

2013	**287,293.4**
2012	N/A

Electricity, heat, steam and cooling purchased for own use (Tonnes of CO_2e)

2013	**3,514,967.0**
2012	N/A

Emissions reported above normalised per ounce of gold produced (Tonnes of CO_2e)

2013	**5.1**
2012	N/A

Definition

The Group monitors and reports GHG emissions from its mines to the Russian authorities on a regular basis as tonnes of emissions emitted. Quarterly reports of emissions against an approved plan are sent to the Russian Environmental Agency, Rosprirodnadzor.

For 2013, this requirement was supplemented by the reporting of GHG emissions for all entities consolidated in the Group's Financial Statements ('Consolidated GHG Emissions'). For the reporting of Consolidated GHG Emissions, the methodology adopted was for planning and reporting of GHG according to the laws of the Russian Federation. Group specialists have used one of the formula, as approved under this legislation, for calculating the CO_2 equivalent ('CO_2e') associated with our consumption of Diesel, Kerosene, Benzene, and Coal.

Under Russian legislation, GHG emissions arising from the generation of grid electricity are reported by the generator. However, for transparency purposes, the GHG emission associated with the Group's consumption of electricity has been reported. This is measured in tonnes of carbon dioxide and calculated using the DEFRA 2013 Scope 2 electricity conversion factor for the Russian Federation.

Relevance

Monitoring GHG emissions will enable the Group to find ways to minimise its carbon footprint. Reducing emissions may also have a positive impact on costs.

Performance in 2013

As a gold producer, the Group's prime metric is the amount of gold produced per calendar year, measured in troy ounces. In 2013, the Group produced 741,200oz of gold and this figure has been used to calculate its intensity metric.

2013 GHG emissions originated from the following sources:

- Diesel – used by machinery;
- Kerosene – used in helicopters and an aeroplane;
- Benzene (petrol) – used in cars;
- Coal – used in heating plants. All heat produced is used for the Group's own consumption.

All emissions quoted are gross as no deductions, for export of renewable energy or purchase of certified emission reduction, are applicable.

Going forward

The Group intends to continue to monitor GHG emissions going forward and review data to analyse where improvements could be made.

Turn to pages 24 to 25 for more on environmental management.

Our action plan

In line with the Group's strategic objective to operate in a safe, sustainable and responsible manner, the Group has a rolling Sustainability Action Plan which outlines key priority areas for the Group's year-on-year sustainable development. This Action Plan is updated on a regular basis, as appropriate.

Group-wide Rolling Sustainability Action Plan

	2013 Achievements	2014 Strategic Objectives and Priority Areas	2015 Strategic Objectives and Priority Areas	2016 Strategic Objectives and Priority Areas
HSE Management	Maintained corporate HSE management systems	Maintain and improve corporate HSE management systems	Maintain and improve corporate HSE management systems	Maintain and improve corporate HSE management systems
Community relations	Developed community relations management systems in response to the development of the Group	Further develop community relations management systems	Further develop community relations management systems	Further develop community relations management systems
Petropavlovsk Foundation	Continued support of the six priority areas identified by the Petropavlovsk Foundation	Continue support of the six priority areas identified by the Petropavlovsk Foundation	Continue support of the six priority areas identified by the Petropavlovsk Foundation	Continue support of the six priority areas identified by the Petropavlovsk Foundation
Carbon emissions	Implemented a system for reporting carbon emissions	Reporting carbon emissions	Reporting carbon emissions	Reporting carbon emissions
Health and safety	Lost Time Injury Frequency Rate ('LTIFR') of 3.27 per million man hours worked achieved	Aim for low LTIFR by seeking to improve on existing robust OH&S systems	Aim for low LTIFR through the continued implementation of robust OH&S systems	Aim for low LTIFR through the continued implementation of robust OH&S systems

Mine-by-mine Rolling Sustainability Action Plan

	2013 Achievements	2014 Strategic Objectives and Priority Areas	2015 Strategic Objectives and Priority Areas	2016 Strategic Objectives and Priority Areas
Pokrovskiy	Aligned operations with the requirements of the International Cyanide Management Code ('ICMC') Developed mine closure plans	Continue to align operations with ICMC requirements Seek government approval of mine closure plans	Continue to align operations with ICMC requirements	Start to develop POX tailings management system (subject to project finance for the POX Hub)
Pioneer	Aligned operations with the ICMC requirements	Continue to align operations with ICMC requirements	Continue to align operations with ICMC requirements	Start to develop flotation tailings management system
Malomir	Aligned operations with the ICMC requirements	Continue to align operations with ICMC requirements	Continue to align operations with ICMC requirements Develop flotation tailings management system	Implement flotation tailings management system Develop mine closure plans for non-refractory pits
Albyn	Aligned operations with the ICMC requirements	Continue to align operations with ICMC requirements	Continue to align operations with ICMC requirements	Continue to align operations with ICMC requirements Start to develop mine closure plans

Corporate Reporting

	2013 Achievements	2014 Strategic Objectives and Priority Areas	2015 Strategic Objectives and Priority Areas	2016 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.

Community engagement

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 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 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 charitable work through one investment vehicle. 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.

Our people

Our employees are a valued resource and their experience, skills and expertise are among our core strengths. We believe our employees have been instrumental in our success to date and are key to our future performance. Thus we are committed to attracting, developing and retaining a talented and motivated workforce.

Working hours and conditions
In line with Russian legislation, and, where applicable, UK 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.

The Group is committed to providing a safe working environment.

See pages 22 to 23 for more on the Group's occupational health and safety approach and performance.

Maintaining good relations
Trade Union
Supplementing existing workplace legislation, an independent trade union was set up at the Group's subsidiary, Pokrovskiy Rudnik, in 2003. The aim of the Trade Union is to provide a balanced forum to air any grievances, discuss, and appropriately act upon, any pressing issues with regards to employees' wellbeing on and off site. The Trade Union has a formal agreement which seeks to establish the mutual obligations of the Group and the Group's employees on working conditions, including wages, employment, hours of work and rest periods, benefits granted, responsibilities and other issues identified by the employees and the Group.

Trade Union representatives are elected by the members of the Trade Union every four years.

The Trade Union has approximately 1,700 members, which comprises approximately 62% of the total employees at Pokrovskiy Rudnik.

Internal Communications
Employee Newsletter
Since 2006, the Group has circulated a free monthly newsletter, the content of which includes corporate and operational updates, interviews with management and employees and relevant regional news.

Career Development Opportunities
The Group remains committed to providing current and potential employees with career development opportunities. In line with this commitment, in 2013, 15 students received sponsorship or bursaries from the Group in order to train at higher education institutions.

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 offers training in more than 40 mining professions.

The College offers training in more than 40 mining professions.

The College aims to provide employment to all graduates and, therefore, it is of considerable benefit, not only to the Group, but also to the economy of the Amur region.

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

The Company has adopted policies and procedures on combatting and dealing with bribery and corruption, including a Code of Conduct and Business Ethics, circulated to all employees, which sets out procedures employees are expected to follow.

In addition, training on the Bribery Act 2010 has been provided to employees in both Russia and London.

The Group's Anti-Bribery Committee provides a report to the Board at each Board meeting on the status of the Company's compliance with its anti-bribery policies (including details of any reportable incidents).

Additional details on the Anti-Bribery Committee may be found on page 77.

Human rights
The Group operates in accordance with the Constitution of the Russian Federation, which details the rights and freedoms of citizens.

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.

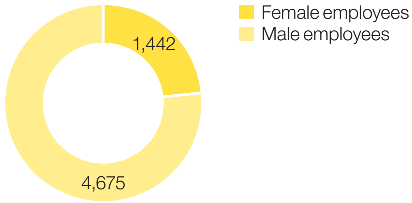
In spite of this commitment, the number of male employees is disproportionately high compared to the number of female employees. As appointments are based on a candidate's skills, the Group believes that this imbalance is a reflection of the fact that the mining sector has been historically male-dominated. As at 31 December 2013, 1,442 employees were female, representing approximately 24% of the total Group workforce.

Women have the opportunity to reach the highest levels of senior management within the Group.

The Board considers its Senior managers principally to be its Executive Committee, being the body responsible for the day-to-day management of the Company. The Executive Committee consists of five Executive Directors and four members of Senior management. As at 31 December 2013, two members of the Executive Committee were female, including one Executive Director, representing 20% of the the total membership of the Executive Committee. Excluding the Executive Directors, as at 31 December 2013, one member of the Executive Committee was female, representing 25% of Senior managers of the Executive Committee who are not also Executive Directors.

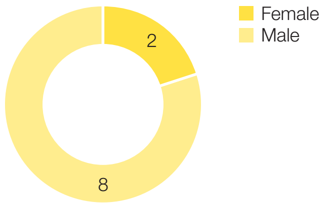
Although the Board is mindful of the continuing focus on the value of gender diversity, the Board has not set and does not intend to set, a specific target for the number of female members on the Board and will endeavour to appoint the best candidate available to us for any particular role. As of 31 December 2013, one Executive Director was female, representing approximately 8% of the total Board.

Breakdown of the total number of employees as at 31 December 2013

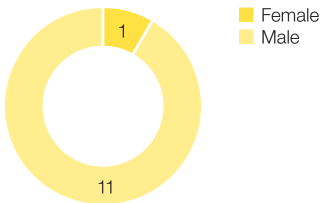


Figures exclude IRC, which is presented as a discontinued operation in the Financial Statements.

Breakdown of members of the Executive Committee as at 31 December 2013



Breakdown of the Board of Directors as at 31 December 2013



Providing a safe working environment

Approach
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. This is achieved through the rigorous control of occupational health and safety ('OH&S') procedures, in line with external requirements and close investigation of any accidents which do occur.

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 relevant 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 against the Group as a result of OH&S violations in 2013 (2012: zero).

Health and safety management systems
The Group has health and safety management systems which supplement Russian legislation.

The Group is committed to constantly identifying, reviewing and evaluating OH&S risks to mitigate their impact effectively.

The Group is committed to regularly examining all internal policies and procedures to ensure that they remain robust and effective.

Across the Group, on-site inspections are regularly conducted by management to ensure compliance with the H&S rules and regulations.

All accidents are recorded and regular reports are submitted to the Executive Committee and the Board. A Board-level Health, Safety and Environmental Committee meets regularly to assess and evaluate, among other duties, OH&S management systems.

The Group is committed to continuously improving safety management system and OH&S in accordance with the international standard OHSAS 18001:1999 and International Labour Organization ILO-OSH 2001.

Provision of Personal Protective Equipment ('PPE')
All staff are provided with task-specific PPE. Failure to wear or use the appropriate PPE is a disciplinary offence, which may result in the employee or their line manager receiving a fine, warning, or dismissal.

On-Site Medical Facilities
There are medical facilities and medically trained staff on duty at all the Group's hard-rock gold mines and helicopters and ambulances are available for emergency evacuation to hospitals. All medical staff undergo regular training and knowledge testing. All sites have developed accident response plans.

Training
The Group considers the provision of adequate training and certification key to its aim to operate safely. The Group is committed to providing high quality, task-specific training. The Group strives to emphasise the importance of on-site H&S to all employees, particularly those working in the fields of construction, drilling and blasting, heavy machinery, electrical safety or those directly involved in the handling of hazardous materials and waste.

All of the Group's employees are suitably qualified for the tasks that they conduct. Certification and training is conducted at the Group's training college, The Pokrovskiy Mining College.

It is a requirement for new employees to take part in a H&S training induction upon joining the Group. In addition, employees transferring internally must undergo H&S training appropriate for their new position. Employees are required to undertake refresher training each quarter.

Fire drills and fire prevention training are conducted every six months. All sites are equipped with a fire engine and trained fire fighters. Mine managers are responsible for regular monitoring to ensure compliance. Oil and fuel is appropriately stored to prevent leakages and spillages and to diminish the risk of fire.

Annual electrical safety training is undertaken in order to underline the importance of electrical safety to employees. Additional electrical safety training is provided for employees who work directly with electricity.

In addition, the Group conducts ad-hoc training as and when required, for example, in connection with new legislation, or in case of an accident that requires special attention.

Analysing performance

The Group has systems in place for reporting and monitoring OH&S performance, including accidents. All accidents or incidents are recorded and investigated in accordance with their severity. An OH&S report is submitted to the Executive Committee as part of the Group's monthly operational report.
The Executive Committee regularly reviews OH&S KPIs.

OH&S performance is then further scrutinised by the HSE Committee and by the Board.

Performance in 2013

2013 saw Petropavlovsk strictly following procedures devoted to maintaining the good OH&S track record achieved during 2012 while continuing to address necessary improvements to health and safety procedures.

Changes to OH&S procedures

The 2013 OH&S action plan included several procedures aimed at improving the Group's overall performance in the field of OH&S. Among those were a number of emergency and contingency plans for working in potentially hazardous conditions, such as drilling and blasting.

Accidents in 2013

Lost Time Injury Frequency Rate ('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.

As at 31 December 2013, the Group had recorded 61 lost time accidents, compared to 47 in 2012.

Regrettably, the 61 accidents which occurred in 2013 include two fatal accidents (2012: zero). An employee received fatal injuries after being hit by a falling tree. Following the accident, a formal independent enquiry was launched by Russian Federal agencies.
This enquiry concluded the Group was not at fault. Following the accident, the standard state compensation was paid to the deceased's next of kin. In addition, the Group has in place a procedure to provide financial assistance to the deceased's dependants until they reach the age of 18.

The second fatality occurred when an operating lever of an excavator was accidently released by an employee, killing his colleague instantly. Although a formal enquiry confirmed that the Group was not at fault, nevertheless, following this fatality, the Group is reviewing its standard procedures to seek to ensure that a similar accident could not occur again.

Of the remaining accidents which occurred in 2013:

- 22 were slips, trips or falls which occurred either when getting in or out of trucks or other mining machinery or due to the winter conditions;
- 20 were machinery-related accidents;
- 11 were vehicle-related accidents; and
- 4 were accidents involving electricity.

The remaining two accidents were considered to be very minor.

These accidents resulted in a LTIFR of 3.27.

Further information on OH&S may be found on our website, www.petropavlovsk.net

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.

General approach to Environmental management

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 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.

Regular environmental reports are submitted to the Executive Committee and the Board. A Board-level Health, Safety and Environmental Committee meets regularly to assess and evaluate, among other duties, the management of environmental issues.

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). This accreditation was extended as a result of 2013 inspection by Russian certification authorities.

Specific issues

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.

Rehabilitation

To date, the Group has not decommissioned any mines. However, it is the Group's intention that after decommissioning, the Group will carry out land restoration work in line with legislative requirements. 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. Local water supplies are monitored for discharges.

Waste management

In compliance with Russian legislation, waste management programmes have been agreed with regulatory authorities. The programmes outline waste disposal standards and stipulate limitations on waste produced or disposed of. Data on waste is collected and logged and sent to regulatory authorities 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.

Cyanide management

Gold is currently extracted at Petropavlovsk's four hard-rock mines using cyanide-based processes. Although the use of cyanide is conventional in the gold-mining industry, the Group recognises that, if not handled correctly, this chemical could be potentially harmful to people and the environment. 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').

Report of Risk Committee

Dear Shareholder,
This report is intended to give you an overview of the operation and scope of the Committee and of its work over the past year.

2013 was a challenging year for the Group with the gold price volatility and the torrential rainfall in the Amur Region of Far East Russia, where the Group's operating mines are located, which resulted in the worst flooding in this area for approximately 120 years. These risks had been identified in the 2012 Risk Report, as being principal risks of the Group and I am pleased that the Board had appropriate mitigating plans in place in order that it could quickly respond to these events. The volatility in the gold price resulted in a decision by the Board to enter into additional financing arrangements to sell gold over a future period to increase the certainty of the Group's cashflow. In addition it led to the decision by the Board to slow down the pace of development of the POX Hub and the related flotation plant at Malomir, the Group having identified additional new non-refractory ore reserves through its exploration programme and to implement a major cost-cutting programme. To date, the cost-cutting programme has been successful, resulting in improved cash-flow and a significant reduction in capital employed. Despite the adverse weather conditions at our mines, the Group achieved its revised 2013 production target. Given the above decisions, the construction of the POX Hub is not considered a principal risk of the Group, at the current time.

Membership of the Committee

Committee members during the year and as at the date of this Report:

Field Marshal the Lord Guthrie	Chairman
Dr Graham Birch	Independent Non-Executive Director
Dr David Humphreys	Independent Non-Executive Director
Sir Roderic Lyne	Independent Non-Executive Director
Mr Martin Smith	Deputy Chief Executive

Recent events in Russia and Ukraine have also increased the geo-political risk for the Group – the Committee and the Board continue to monitor the position in order that appropriate steps can be taken, if necessary.

As explained in the Chairman's Statement on page 05 of this Annual Report, the Directors have developed a refinancing plan to resolve the forecast breaches of certain covenants in December 2014, contained in the Group's senior debt facilities and the need to repay the Group's Convertible Bonds, which mature in February 2015.

The Committee, together with the Audit Committee and the Board, are receiving regular and detailed reports of progress in this respect.

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 Blagoveshchensk, Russia near the Group's operating mines, Mr Smith is involved in operational issues on a daily basis and has a clear understanding of the Group's operational and health and safety risks, accordingly he provides valuable input to the Committee's deliberations.

We held six meetings during the year. These were attended, at my invitation for all or part of any meeting, by the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, the Strategic Director and the Group Head of Legal Affairs to present details of specific risks relating to their areas and to discuss mitigating actions being taken, with appropriate challenge provided by the Committee. The Company Chairman and the Company Secretary, who acts as Secretary to the Committee, were also invited to attend.

Risk management framework

Board
Ultimate responsibility for setting the Group's risk appetite. Retains oversight of risks and the effectiveness of the risk management framework.

Executive Committee
Ongoing risk review and management of risks.

Risk Committee
Responsible for reviewing the identification, evaluation and management of key risks and assessing the effectiveness of related controls and monitoring the internal control systems. Reinforces risk management principles throughout the Group.

Audit Committee
Responsible for reviewing financial risks and reporting thereon to the Risk Committee.

2013 Principal Risks Report
The Committee principally focuses on those risks that could impact on our business and on the success of the Group's strategy, which is described in detail in the Strategic Report. Risks that could impact the business are considered in the broad categories detailed in the table 'Categorisation of risks and risk owners'.

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.

Removal of Risks included in the 2012 Principal Risks table:
The following two risks were disclosed as Principal Risks in the 2012 Report of the Committee. However they have been removed from the 'Table of Principal Risks' included in this Report due to the following:

Risk: Failure to complete various capital investment projects, including the execution of the commissioning of the POX Hub:
As detailed in the letter from the Chairman of the Committee the construction of the POX Hub is not considered a Principal Risk at the current time due to the Board's decision to defer this project. No other significant capital investment projects have been approved by the Board or are currently in progress.

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

CEO/
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

CEO/
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 ongoing 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

Risk: Lack of Skilled Labour: As part of the cost-cutting programme approved by the Board during 2013, the Company undertook a significant redundancy programme. As a consequence the Committee does not consider that the risk that the Group will experience a shortage of skilled labour is a principal risk at the current time. However this risk will continue to be monitored on a regular basis by the Executive Committee and by the Committee as appropriate.

Principal risks relating to the Group
The most significant risks that may have an adverse impact on the Group's ability to meet its strategic objectives and to deliver shareholder value are set out on pages 28 to 37.

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 risks set out on pages 28 to 37, should not be regarded as a complete 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.

The symbols indicate how the Company considers that these risks have changed since 2012, both before and after mitigation.

↑ Increased risk

→ No change in risk

↓ Decreased risk

Table of Principal Risks

Operational risks

Risk	Description and potential impact	Mitigation
1. Factors which impact output such as: **i) Weather and** **ii) Failure of equipment or services.** **Additional information** Our Strategic Objectives page 12. Operations and Development pages 38 to 49. → **Change in risk before mitigation**	i) 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 and torrential rain, potentially causing flooding in the region 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. ii) 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 is essential to the Group's ability to extract ore from the Group's assets and 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.	i) Preventative maintenance procedures are undertaken on a regular and periodic basis to ensure that machines will function properly under extreme cold weather conditions; 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. Pumping systems are in place and tested periodically to ensure that they are functioning. Management monitor natural conditions in order to pre-empt any disaster and in order that appropriate mitigating action can be taken expediently. The Group aims to stock several months of essential supplies at each site. ii) The Group has a number of contingency plans in place to address any 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**

Financial risks

Risk	Description and potential impact	Mitigation
1. Lack of funding and liquidity to: **i) Support its existing operations;** **ii) Invest in and develop its exploration projects;** **iii) Extend the life and capacity of its existing mining operations; and** **iv) Refinance/repay the Group's debt as it falls due.** **If the operational performance of the business declines significantly the Company will breach one or more of the financial and production covenants as set out in various financing arrangements.** **Additional information** Chairman's Statement pages 04 and 05. Our Strategic Objectives – Optimising financial return page 13. Directors Report page 107. Independent Auditor's Report pages 109 to 115. **Change in risk before mitigation**	Adverse events or uncertainties affecting the gold price and/or the global financial markets could affect the Group's ability to raise new debt or refinance existing debt in the capital markets. It could also in future lead to higher borrowing costs. The Group needs ongoing access to liquidity and funding in order to (i) refinance its existing debt as required, (ii) support its existing operations and (iii) 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 or financial commitments. 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. In the absence of refinancing the Group is forecast to breach certain covenants in its banking facilities at 31 December 2014.	As detailed in the Chairman's Statement on page 05 the Directors have developed a refinancing plan. The cost-cutting programme has resulted in improved cashflow and reduced capital employed resulting in a 11% reduction in net debt as at 31 December 2013, year-on-year, to US$948m despite the significant decline in the gold price during the year. The Group has adopted a strategy to focus on its core projects, thereby optimising its capital expenditure requirements and deleveraging its balance sheet. During 2013 the Group sold non-strategic alluvial assets for a total cash consideration of US$25m (see note 28) to the consolidated financial statements. The Group continues to maintain 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. **Change in risk after mitigation**

Financial risks continued

Risk	Description and potential impact	Mitigation
2. The Group's results of operations may be affected by changes in gold and/or iron ore prices. **Additional information** Chairman's Statement page 04. Gold Market Overview pages 06 and 07. Chief Finanacial Officer's Statement page 63. **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. Following the significant decline in the gold price in April 2013, the Board decided to continue and add to its 'hedging' positions. Further details of these arrangements are provided on page 63 in the Chief Financial Officer's Statement. During 2013 the Board approved a cost cutting programme and carried out a strategic review of the Group's business plan. The strategic review resulted in a slow down in the pace of development of the POX Hub to process refractory ore, instead focussing on production from its existing facilities, which treat non-refractory material following the success of the Group's exploration programme which had identified additional new non-refractory reserves. The cost cutting programme and the identification of this additional non-refractory ore resource has resulted in cost savings, a significant reduction in proposed capital expenditure for 2014, given the slow down in the pace of the development of the POX Hub, increased cashflow and lower overall Total Cash Costs. The Group intends to continue to minimise overhead costs and to operate and maintain low cost and efficient operations in order to optimise the Group's returns. In addition, if the investment in IRC approved by Shareholders in March 2013 (see note 27 to the consolidated financial statements) completes, the Group's holding in IRC will reduce to 40.49%. The Group's exposure to the iron ore price will therefore reduce accordingly. **Change in risk after mitigation**

Financial risks continued

Risk	Description and potential impact	Mitigation
3. Currency fluctuations may affect the Group. **Additional information** Chief Finanacial Officer's Statement page 69. **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 (mainly Russian Rouble) and operates an internal funding structure which seeks to minimise foreign exchange exposure. **Change in risk after mitigation**
4. Funding may be demanded from Petropavlovsk under a guarantee in favour of ICBC. **Additional information** Chief Finanacial Officer's Statement page 66 and IRC page 50. **Change in risk before mitigation**	Petropavlovsk has provided a guarantee against a US$340 million loan facility provided to Kimkano-Sutarsky Mining and Beneficiation Plant LLC ('K&S') by ICBC to fund the construction of IRC's mining operations at the K&S mine. In the event that there was to be an event of default in relation to such loan, if K&S were not to pay all sums payable in respect of that loan, Petropavlovsk may be liable to repay all outstanding amounts 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. Subject to the completion of the investment in IRC (see note 27 to the consolidated financial statements), 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 completion of the investment, 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**

Financial risks continued

Risk	Description and potential impact	Mitigation
5. Exploration for reserves can be costly and uncertain. **Additional information** Our Strategic Objectives – Value exploration page 10. Exploration pages 51 to 53. **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 production may change. As a result of these uncertainties, the exploration programmes in which the Group is engaged 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 2013 the Group continued to focus its exploration programme on areas at or close to its existing operating mines and in particular, on finding new, non-refractory resources. As a result of its exploration programme the Group announced in December 2013 an increase of 5.7 million ounces of non-refractory resources, estimated in accordance with the Russian GKZ Classification System. This figure included 0.56Moz of combined C_1+C_2 categories, 1.82Moz in P_1 and 3.32Moz in P_2. As these new resources are located in the areas adjacent to existing processing facilities minimal capital expenditure will be required to develop them. These resources have now been partially converted into JORC Mineral Resources and Ore Reserves. In addition the Group has identified further refractory mineral resources of approximately 7.2Moz estimated in accordance with the internally-used Russian GKZ Classification System. 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**

Health, Safety And Environmental Risks

Risk	Description and potential impact	Mitigation
1. Failures in the Group's health and safety processes and/or breach of Occupational Health & Safety legislation. **Additional information** Our Strategic Objectives – Operate responsibly and safely page 16. Sustainability pages 22 and 23.	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 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 a regular basis. The Group continually reviews and updates its health and safety procedures 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. The Group operates a prompt incident reporting system to the Executive Committee, the Health, Safety and Environmental ('HSE') Committee and the Board. Unfortunately there were two fatalities during 2013 (2012: none). Both of these fatalities were reported immediately to the Chairman of the HSE Committee. The incidents were investigated by the Russian authorities who have confirmed that no action will be taken against the Group as the Group was not found to be at fault for either of these accidents. The HSE Committee discussed each of the fatalities in detail to identify whether any actions could be taken or further training provided to mitigate against any reoccurrence of a similar accident. Board level oversight of health and safety issues occurs through the work of the HSE Committee.
Change in risk before mitigation		**Change in risk after mitigation**

Health, Safety And Environmental Risks continued

Risk	Description and potential impact	Mitigation
2. The Group's operations require the use of hazardous substances including cyanide and other reagents. **Additional information** Environmental management pages 24 and 25. **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**

Legal and regulatory risks

Risk	Description and potential impact	Mitigation
1. The Group requires various licences and permits in order to operate. **Additional information** Exploration Report and Licence Acquisitions pages 51 to 53. **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 the operations requiring the permit and the imposition of additional conditions may cause the Group to incur additional compliance costs.	There are established processes in place to monitor the required and existing licences and permits on an on-going basis and processes are also in place to ensure compliance with the requirements of the licences and permits. Schedules are presented to the Executive Committee detailing compliance with the Group's licences and permits. **Change in risk after mitigation**

Legal and regulatory risks continued

Risk	Description and potential impact	Mitigation
2. The Group's mineral Reserves and Resources are estimates based on a range of assumptions. **Additional information** Our Strategic Objectives – Value exploration page 10. Reserves and Resources pages 54 to 59. **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 ongoing 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. These 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 disclosed in the Company's 2013 Annual Report were 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') with the exception of the alluvial reserves and resources which were prepared in accordance with the Russian GKZ Classification System. The preparation of these Group estimates followed methodology set out in 2011 and 2012 by Wardell Armstong 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 prepares its Reserves estimates based on gold prices which are lower than the current market price of gold. In December 2013 the Group announced an increase of 5.7 million ounces of non-refractory resources, estimated in accordance with the Russian GKZ Classification System, as a result of the ongoing exploration programme. This figure included 0.56Moz of combined C_1+C_2 categories, 1.82Moz in P_1 and 3.32Moz in P_2. These new resources are located in the areas adjacent to existing processing facilities and they have now been partially converted into JORC Mineral Resources and Ore Reserves. Further work on the reclassification of these additional non-refractory resources is ongoing. **Change in risk after mitigation**

Legal and regulatory risks continued

Risk	Description and potential impact	Mitigation
3. The Group is subject to risks associated with operating in Russia.	Actions by governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets could have an adverse impact on the Group's business or its future performance. Most of the Group's assets and operations are based in Russia. Russian foreign investment legislation imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including in respect of gold reserves in excess of a specified amount or any occurrences of platinum group metals. The Group's Pioneer and Malomir licenses have been included on the list of subsoil assets of federal significance, maintained by the Russian Government ('Strategic Assets'). The impact of this classification is that changes to the direct or indirect ownership of these licences may require obtaining clearance in accordance with the Foreign Strategic Investment Law of the Russian Federation. 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 and specifically in Russia. It also relies on the advice of external counsel in relation to the interpretation and implementation within the Group of new legislation. The Group closely monitors its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government. This risk cannot be influenced by the management of the Company. However, the Group monitors changes in the political environment and reviews changes to the relevant legislation, policies and practices
4. The Group is subject to risks that may arise from the current political instability between Russia and the West, concerning Ukraine. **New Risk**	The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Russian rouble. The imposition by the United States, the European Union and other countries of sanctions, asset freezes, travel limitations and certain other measures against specified Ukrainian and Russian individuals and others have not had a direct impact on the Group's business but could do so in in the future if such tensions escalate and or further sanctions are imposed that affect our ability to deal with certain persons or the Russian economy or demand for our gold production is affected by any of the above factors. The financial markets are currently uncertain and volatile. These and other events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. The consequential increase in the perceived risk of investing in Russia could also be materially detrimental to the Group.	The Group has no assets or operations in Ukraine. The Group produces gold from its Russian mines and sells this gold to Russian licensed banks.The Board and Executive continue to closely monitor the position. The Company maintains an ongoing dialogue with its Shareholders and potential investors. ↑ **Change in risk after mitigation**

Human resources risks

Risk	Description and potential impact	Mitigation
1. The Group depends on attracting and retaining key personnel who have the requisite skills and experience to satisfy the specific requirements for the business. These skills include a good knowledge of the customs and practice in the mining industry in Russia, and for certain senior positions a considerable fluency in English and Russian may be required. **Additional information** Directors' Remuneration Report pages 87 to 103. **Change in risk before mitigation**	The Group's success is closely aligned to the experience, abilities and contributions of certain of its key senior managers. 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 with the requisite skills.	Succession planning is an important item on the agendas of both the Nomination Committee and the Board. Reviews of reward structures and incentive plans are carried out as appropriate in order to attract, retain and incentivise key employees. **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 Committee.

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

Lord Guthrie
Chairman of the Risk Committee
28 April 2014

Operations and Development

Russian Federation

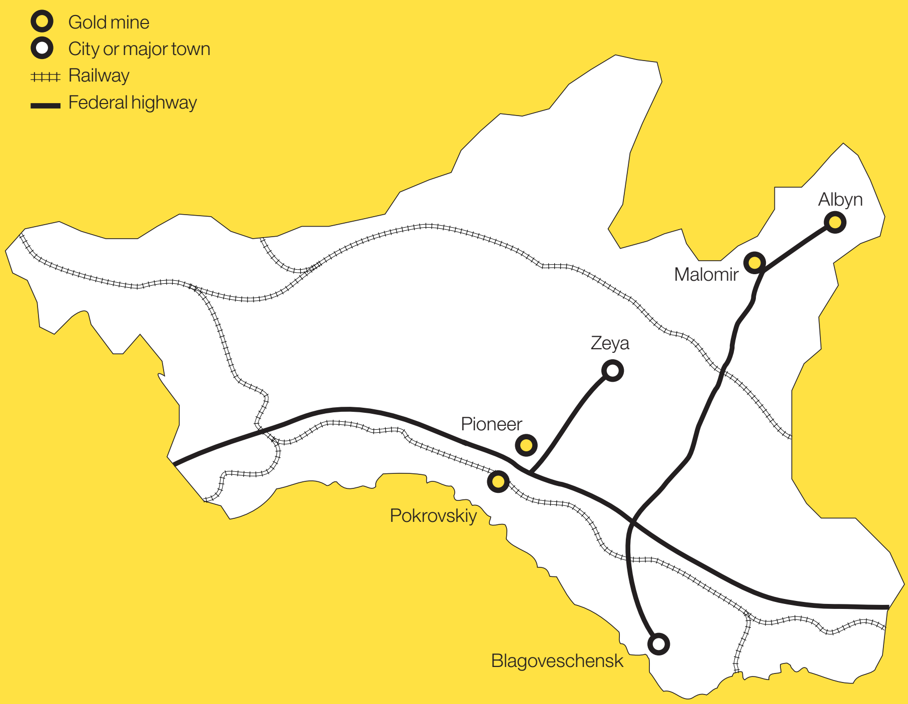
A Russian gold producer
Petropavlovsk is a Russian gold producer and benefits from an established mining tradition.

The history of gold mining in Russia dates back more than 250 years. During the Soviet period, Russia was one of the main leaders in the global gold mining industry and remains one of the leading global commodity producers today. This tradition favoured the development of scientific and technical expertise that is still prevalent today. For example, Irgiredmet, the Petropavlovsk-owned leading research and scientific consulting institute for precious and rare metals and diamonds, is more than 140 years old and was acquired by the Group in 2006.

This established mining tradition contributed to the creation and development of the legislative framework for the mining sector, which includes mining tax and detailed environmental requirements. In addition, as in many jurisdictions, Russian legislation requires a mining company operating in Russia to obtain licences or permits to conduct exploration or mining work. The licensing regime covers the nature of work permitted within the licence area, as well as the timeframe and environmental conditions. This legislative framework provides a clear and regulated environment for mining companies to explore, develop and generate returns from their assets.

Our gold mines

Amur region



The Amur region
Our core operations are in the Amur region, Russian Far East, where we have been active since 1994.

The Amur region has a total area of approximately 361,600km² and a population of approximately 1 million people, the majority of whom live in Blagoveschensk, the regional capital.

Mining is one of the region's key industries due to its favourable geological conditions. The Amur region lies across one of the world's major belts of mineralisation, thus benefiting from a strong mining tradition. The region has good infrastructure, including the Trans-Siberian and Baikal-Amur railways, the Moscow-Vladivostok highway and access to hydro-electric power.

Petropavlovsk is a leading employer in the Amur region and is a contributor to the development of the region's local economy.

Pioneer

Pioneer is one of the largest gold mines in Russia. It is the Group's flagship mine: production from Pioneer accounts for approximately 42% of the Group's total annual gold production.

Turn to page 40 for more on Pioneer.

Pokrovskiy

Pokrovskiy is the Group's oldest mine and has produced more than 1.85Moz to date. The Group plans to convert the mine into a regional processing hub which will use pressure oxidation ('POX') technology.

Turn to page 42 for more on Pokrovskiy.

Malomir

Malomir was acquired by the Group in 2003 as a greenfield site. Today, thanks to the success of the Group's in-house exploration teams, it is the Group's largest mine in terms of its reserves and resources, despite producing more than 330Koz to date.

Turn to page 44 for more on Malomir.

Albyn

Commissioned in 2011, Albyn is the Group's newest mine. Large areas adjacent to the mine remain under-explored and offer potential for the discovery of new gold resources, which could be significant to the Albyn mine life.

Turn to page 46 for more on Albyn.

Our assets
Pioneer

Key facts

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

Mining
Open-pit.

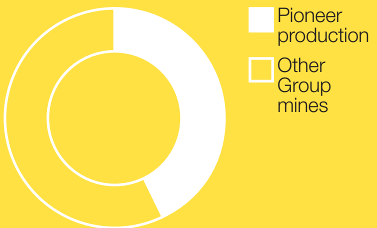
Processing
On-site 6.2Mtpa-6.6Mtpa RIP plant plus heap-leach facility.

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

Commercial start up
2008. Plant subsequently expanded in order to increase capacity in 2009, 2010 and 2012.

JORC Reserves and Resources
2.14Moz of Ore Reserves and 5.27Moz of Mineral Resources.

2013 gold production
c.314,850oz, equating to c.42% of the Group's total gold production for 2013.



Progress against strategic priorities

Value-adding exploration
Exploration resulted in the addition of c.1.11Moz of gold Resources, a net increase of 770Koz when taking into account depletion.

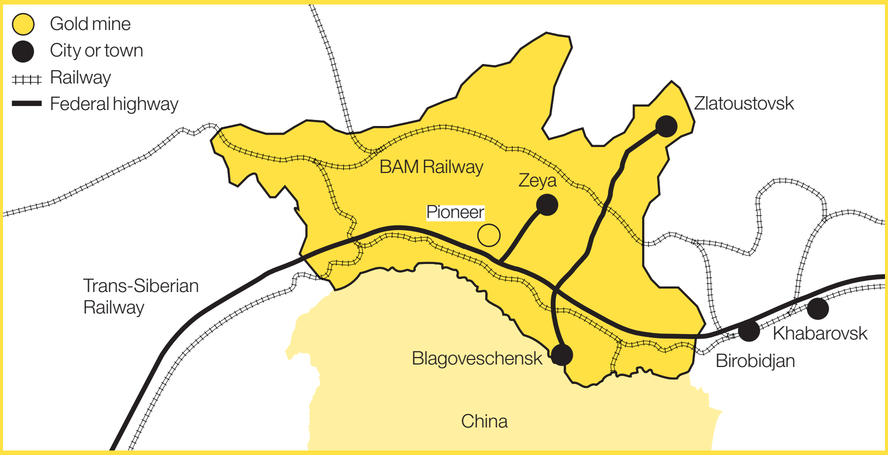
Asset development
Expansion of sorption circuit done according to the design of the Group's engineers resulted in the ability of the plant to work to its full capacity of 6.6Mtpa.

Operational efficiencies
The negative effect of processing lower quality ore was mitigated by a comprehensive cost-cutting programme implemented at the mine and optimsation of operational activities.

Operating responsibly and safely
During the year, the number of total recordable diseases for OJSC Pokrovskiy Rudnik, which includes the Pioneer mine, decreased from 2,356 (in 2012) to 1,645.

Location

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



Pioneer is one of the largest gold mines in Russia. It is the Group's flagship mine: production from Pioneer accounted for approximately 42% of the Group's total annual gold production in 2013. The total licence area for Pioneer covers 470km^2.

Pioneer was acquired as a greenfield deposit in 2001. It was subsequently explored and developed by the Group into a producing gold mine. Its on-site resin-in-pulp ('RIP') plant operates all year round. In addition, the mine operates a seasonal heap-leaching facility.

Today, as a result of the Group's in-house exploration programme, Pioneer has a substantial mineral base of non-refractory and refractory reserves and resources. The mine also has the potential to add further gold-bearing material to the mine's reserves base in the near future, following an active exploration programme carried out by the Group geologists on under-explored areas surrounding the mine.

Pioneer has produced more than 1.6Moz of gold since commissioning in 2008.

Geology
Gold mineralisation at Pioneer was formed as a result of hydrothermal activity associated with volcanism during the Mesozoic period. The mine is located on the south side of the Mongolo-Okhotskiy fold/thrust line within the belt of mineralisation associated with the collision of the Eurasian and Amur plates.

The Pioneer deposit consists of several ore zones. Of these, Andreevskaya and NE Bakhmut are considered to be high-grade and have significantly contributed to the mine's production profile to date. Group geologists subsequently identified several further sequential ore zones, of which Alexandra and Shirokaya are the most significant. See page 51 for more on exploration at Pioneer and page 58 for more on Pioneer Reserves and Resources.

Approximately 45% of Pioneer's current Reserves are non-refractory and can be processed in the mine's existing facilities. The remaining ore is refractory – not suitable for direct cyanidation processing methods due to the presence of sulphides in the ore. The Group currently expects that this material will be processed into flotation concentrate and then trucked 35km by existing roads to the Pokrovskiy site for processing in the future POX plant once commissioned. See page 48 for further details.

Reserves and Resources

	Non Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Reserves	28,701	0.99	0.91	37,606	1.01	1.22	66,307	1.00	2.14
Measured and *Indicated* Resources	51,744	0.82	1.36	80,547	0.86	2.24	132,291	0.85	3.60
Inferred Resources	22,840	0.60	0.44	62,455	0.61	1.23	85,295	0.61	1.67

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

Infrastructure
Pioneer has well developed internal infrastructure, including roads, an on-site heating plant, an electricity supply, water supply, on-site accommodation, offices and ancillary facilities. All-weather roads connect the mine to local towns, federal highways and the Pokrovskiy mine, which is 35km away. The nearest station on the Trans-Siberian railway lies approximately 40km away.

Mining and processing
Mining at Pioneer is entirely open-pit.

Currently, only the mine's non-refractory ore is being processed. Higher-grade material is processed in an on-site 6.6Mtpa RIP plant, which is designed to be operational throughout the year. In 2013, approximately 97% of the mine's gold output was processed in the plant. Lower grade material is processed using an on-site heap-leaching facility. This facility is only operational during the warmer months of the year, typically from April until November.

In order to process the mine's large reserves of refractory ore, the Group is planning to construct a flotation plant at Pioneer, which will convert the refractory ore into flotation concentrate. This would then be sent for processing to the planned POX Hub at the Pokrovskiy mine, located approximately 35km away by road. See page 48 for further details.

Performance in 2013
Pioneer produced approximately 314,850oz of gold in 2013. Production for the year was hampered due to the excessive rainfall in Q3 which flooded the pits and prevented access to high-grade material. As previously announced, this resulted in a c.10,000oz decrease in production relative to the planned production for the year. This material is scheduled to be processed in 2014.

In accordance with the mine plan, the higher grade material mined during the year was blended with lower grade material from stockpiles resulting in their significant decrease and a substantial release of working capital.

In Q1 2013, the expansion of the absorption circuit at the resin-in-pulp plant ('RIP') processing plant was completed and during the year the plant processed 25% more ore compared to 2012. Economies of scale allowed for the profitable processing of ore at a lower head grade.

The plant's expansion allowed for a record 6.6 million tonnes of ore to be processed during the year with an average grade of 1.8g/t. The decrease in recovery rates from 86% to 82% was due to the more metalurgically complex nature of ore treated through the plant during the year.

Approximately 3% of Pioneer's gold output in 2013 was produced via heap-leach operations.

During the year, high-grade ore was mined predominantly at the pits in the NE Bakhmut zone. This area, together with the extension of the high-grade Andreevskaya pit, is scheduled to be the main source of high quality ore for the plant in 2014. The extension to the Andreevskaya pit commenced in Q2 2013 and was completed in Q1 2014.

Costs
2013 TCC/oz for Pioneer were US$887/oz (2012: US$734/oz). The increase in TCC/oz was primarily due to a 21% decrease in processed grades (due to the inclusion of low grade stockpiles) and a 57% increase in the stripping ratio compared to 2012. The negative effect of processing lower quality ore was mitigated by a comprehensive cost-cutting programme implemented at the mine and optimisation of operational activities.

See page 65 for more on costs.

Outlook
In 2014, the Group's flagship mine is expected to contribute approximately 35-40% of the Group's total production for the year (c.230,000-240,000oz). Production is expected to come predominantly from the high-grade ore of the NE Bakhmut and Andreevskaya pits blended with lower grade material from Yuzhnaya and Bakhmut. The low-grade ore is scheduled to be treated through the mine's heap-leach facility. It is expected that the stripping ratio in 2014 will decrease significantly by almost c.60% compared to the previous year partially offsetting the negative effects of a c.26% scheduled decrease in processed grades. 2014 TCC/oz for Pioneer are also expected to be negatively affected by the continued processing of lower grade stockpiles accumulated during previous years.

Mining operations

	Units	Year ended 31 December 2013	Year ended 31 December 2012
Total material moved	m^3 '000	30,825	40,826
Ore mined	t '000	4,588	9,135
Average grade	g/t	2.0	1.8
Gold content	oz '000	301.6	532.4

Processing operations

	Units	Year ended 31 December 2013	Year ended 31 December 2012
Resin-in-Pulp ('RIP') Plant			
Total milled	t '000	6,583	5,305
Average grade	g/t	1.8	2.2
Gold content	oz '000	371.3	379.7
Recovery rate	%	82.0	86.0
Gold recovered	oz '000	304.5	326.7
Heap-leach			
Ore stacked	t '000	1,005	946
Average grade	g/t	0.7	0.6
Gold content	oz '000	21.0	19.0
Recovery rate	%	48.9	37.3
Gold recovered	oz '000	10.3	7.0
Total gold recovered	oz '000	314.8	333.6

Our assets
Pokrovskiy

Key facts

Deposit type
Hard-rock, non-refectory ore. Central Pokrovka-1 deposit surrounded by satellites.

Mining
Open-pit.

Processing
On-site 1.8Mtpa-2.1Mtpa RIP plant, future plan to convert 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
0.43Moz of Ore Reserves and c.1.80Moz of Mineral Resources (combined Pokrovka-1, satellites and Burinda*).

2013 gold production
c.91,200oz, equating to c.12% of the Group's total gold production for 2013.

Progress against strategic priorities

Value-adding exploration
Exploration resulted in the addition of c.0.35Moz of gold Resources at Burinda, which are planned to be treated at Pokrovskiy.

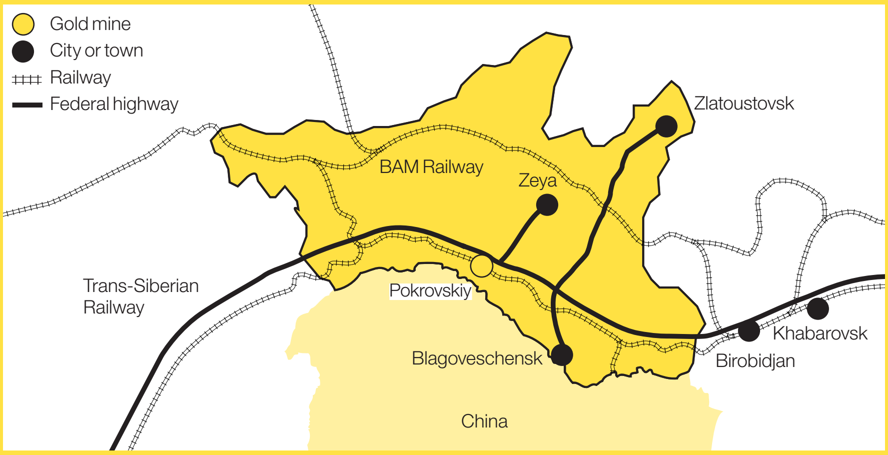
Asset development
Development of the POX Hub continued during the year: the autoclaves were installed and the oxygen plant is now 90% complete. POX development slowed down.

Operational efficiencies
2013 TCC/oz for Pokrovskiy were US$1,180/oz (2012: US$782/oz). Although the processed grades were almost in line year-on-year, TCC/oz for the mine increased significantly compared to 2012 due to a substantial amortisation of deferred stripping from the previous periods. TCC/oz was also negatively affected by a 7% decrease in RIP recovery rates.

Operating responsibly and safely
During the year the number of total recordable diseases for OJSC Pokrovskiy Rudnik, decreased from 2,356 (in 2012) to 1,645.

Location

Pokrovskiy is situated in the south-west of the Amur region. The mine benefits from well-developed transport links, including all-weather roads linking the mine to local towns and the Group's other hard-rock mines in the Amur region and the close proximity of the Trans-Siberian Railway.



*Burinda is a medium-sized non-refractory epithermal gold deposit located, c.100km (c.150km by road) west from Pokrovskiy and close to a station on Trans-Siberian railway. Bulk samples are currently being taken by open-pit methods, from Burinda to Pokrovskiy for processing. Burinda is located within the Taldan licence area which is considered prospective for further gold discoveries.

Pokrovskiy is a hard-rock, open-pit gold mine located in the Amur region, Russian Far East.

The mine was the Group's first asset: It was acquired by Dr Pavel Maslovskiy (Honorary President) when it was still at an early stage of exploration and the Group was created in 1994 in order to finance the project's development. The mine became the backbone of the Group. It produced its first gold from its heap-leach facility in 1999 and in 2002, its RIP plant was commissioned.

Pokrovskiy remains one of the Group's key assets. To date, the mine has produced more than 1.85Moz of gold. Consequently, today, the Pokrovka-1 deposit is almost depleted. To prolong the mine life, mining has been gradually shifting to satellite deposits (flanks) of Pokrovka-1.

Geology and Resources
Pokrovskiy is located on the south side of the Mongolo-Okhotskiy regional belt, the boundary between two tectonic plates which collided during the early Cretaceous period, approximately 150 million years ago.

The central Pokrovka-1 deposit, which is now almost depleted, consists of a set of five large, irregular, but mostly flat-lying ore bodies. Mineralisation is associated with hydrothermal volcanic activity that occurred during the late Mesozoic period.

Several satellite deposits have been identified as a result of the extensive exploration work carried out by the Group, which has extended the mine life. See page 53 for more on exploration at Pokrovskiy and its satellite deposits and page 59 for more on Reserves and Resources at Pokrovskiy and its satellite deposits.

Infrastructure
Pokrovskiy has well developed infrastructure, including: an electricity supply, water supply, on-site heating plant, road network, accommodation and related leisure facilities, an office block and an on-site laboratory. The mine is 10km from the Trans-Siberian railway and all weather roads connect the mine to local towns and federal highways.

Mining and Processing
Mining at Pokrovskiy is entirely open pit.

Ore is processed on site: higher-grade ore is processed in a 2.1Mtpa RIP plant and lower-grade ore is processed using a 0.8Mtpa heap-leaching facility. The RIP plant is

Mineral Reserves and Resources

	Non Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Reserves	11,982	1.13	0.44	–	–	–	11,982	1.13	0.44
Measured and *Indicated* Resources	42,111	0.79	1.13	–	–	–	42,111	0.79	1.13
Inferred Resources	32,787	0.64	0.66	–	–	–	32,258	0.64	0.66

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

designed to operate 24 hours a day, 365 days of the year. By contrast, the heap-leaching facility only operates during the warmer times of the year, typically from April to November.

Performance in 2013

During 2013, Pokrovskiy produced approximately 91,200oz of gold.

As at Pioneer, 2013 operations at Pokrovskiy were significantly affected by the heavy rains in August and September. This adverse weather resulted in temporary flooding of the Pokrovka-1 pit. Furthermore, a large amount of silt and clay was washed into the pit, covering areas of high-grade material at the bottom of the pit. This was removed only in October and November and resulted in a c.4,000oz decrease in production.

Throughout the year a scheduled push back of the south wall of Pokrovka-1 was carried out in order to reach the high-grade ore at the bottom of the pit while lower-grade ore was mined at Pokrovka-2 and other satellite pits.

Access to high-grade ore was gained in H2 2013 resulting in an improvement to the head grade at the plant compared to H1 2013 although the blend for the plant also included lower-grade stockpiles from previous years.

During 2013 the processing of high-grade bulk samples from the Burinda deposit through Pokrovskiy plant has also been carried out. Burinda is a gold deposit situated within Taldan licence c115km north-west (or c.150km by road) from Pokrovskiy. The ore bodies are elongated in the N-S and NE-SW directions, hosted by a surrounding zone of metasomatism and characterised by pinch-and-swell structures. Their lateral extent ranges from a few tens of metres to 1,000m (Tsentralnoye ore body), and thickness from a few metres to 18m (Yuzhnoye ore body). It is planned that the material from the Burinda deposit will be treated at the Pokrovskiy plant.

Due to the continued operation of the plant, 1.8 million tonnes of ore were processed during the year with an average grade of 1.8g/t. The decrease in RIP recovery rates to c.77% from 83% in 2012 was due to the high clay content in the ore treated through the plant during the year.

The Pokrovka-1 pitis expected to be exhausted in 2014 following which all ore processed during the year will come from Pokrovka-2, small satellite pits and stockpiles.

Mining operations

	Units	Year ended 31 December 2013	Year ended 31 December 2012
Total material moved	m^3 '000	6,779.5	9,702
Ore mined	t '000	1,200	1,453
Average grade	g/t	2.0	1.7
Gold content	oz '000	78.3	78.1

Processing operations

	Units	Year ended 31 December 2013	Year ended 31 December 2012
Resin-in-Pulp ('RIP') Plant			
Total milled	t '000	1,789	1,692
Average grade	g/t	1.8	1.7
Gold content	oz '000	104.4	94.3
Recovery rate	%	76.7	82.8
Gold recovered	oz '000	80.1	78.1
Heap-leach			
Ore stacked	t '000	669	890
Average grade	g/t	0.7	0.7
Gold content	oz '000	14.2	19.9
Recovery rate	%	78.4	70.4
Gold recovered	oz '000	11.1	14.0
Total gold recovered	oz '000	91.2	92.1

Costs

2013 TCC/oz for Pokrovskiy were US$1,180/oz (2012: US$782/oz). Although the processed grades were almost in line year-on-year, TCC/oz for the mine increased significantly compared to 2012 due to a substantial amortisation of deferred stripping from the previous periods. TCC/oz was also negatively affected by a 7% decrease in RIP recovery rates.

See page 65 for more on costs.

Outlook

Production from Pokrovskiy in 2014 is expected to be lower than in 2013, constituting approximately 8% of total production. The Pokrovka-1 pit is expected to be depleted in H1 following which all ore will come from Pokrovka-2, stockpiles and the satellite high-grade deposits.

Our assets
Malomir

Key facts

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

Mining
Open-pit, two pits currently active.

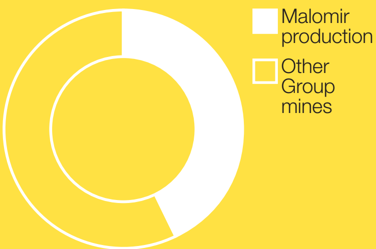
Processing
On-site 1.8Mtpa-2Mtpa RIP plant; on-site flotation plant.

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

Commercial start up
2010.

JORC Reserves and Resources
4.05Moz of Ore Reserves and 9.68Moz of Mineral Resources.

2013 gold production
c.115,520oz, equating to c.16% of the Group's total gold production for 2013.



Progress against strategic priorities

Value-adding exploration
Exploration of the Magnetitovoye zone added c.105Koz of resources (1.87Mt at 1.63g/t in *Measured* and *Indicated* and 86kt at 1.66g/t in *Inferred* categories).

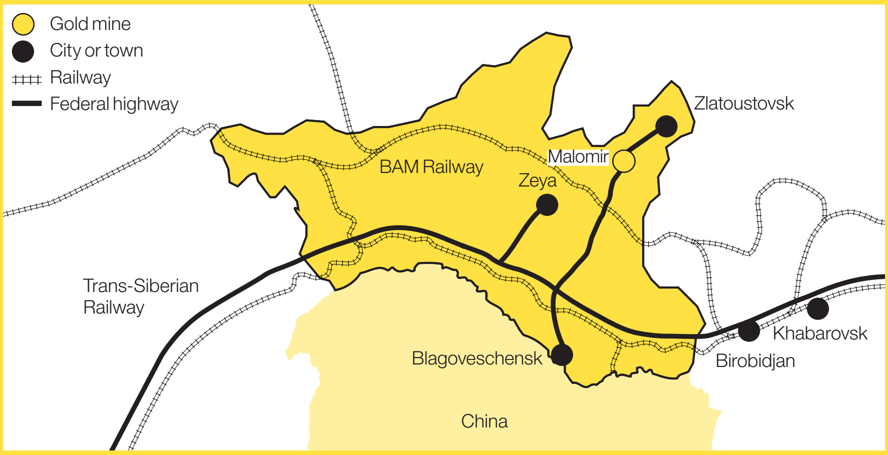
Asset development
Construction of the Malomir flotation plant reached its final stages, preparing Malomir for refractory ore processing.

Operational efficiencies
TCC/oz for Malomir were US$1,027/oz (2012: US$911/oz) following a c.10% decrease in grades and a 14% increase in the stripping ratio compared to 2012.

Operating responsibly and safely
During the year, the management of the mine decreased the number of violations of safety policies and procedures from 22 in 2012 to zero.

Location

Malomir is situated in the north-eastern part of the Amur region. All-weather roads connect the mine to the closest town of Fevralsk and to Pokrovskiy, which is approximately 670km away.



Malomir is a hard-rock, open-pit gold mine in the north-west of the Amur region, Russian Far East.

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 P1 Russian Category resources. Today, as a result of the strength of the Group's in-house exploration team, the mine has become one of the largest of the Group's mines in terms of natural resources base. Exploration of the mine is still on-going and yielding promising results.

Malomir has produced more than 330,000oz of gold since commissioning mid-2010.

Geology and Resources
The Malomir deposit is situated along and above a major thrust zone within the Mongolo-Okhotskiy mineralised belt and is hosted by upper Palaeozoic meta-sediments, mainly carbonaceous shales, which are affected by low-grade regional metamorphism and locally intense metasomatic alteration (mainly silification) with associated hydrothermal mineralisation.

In addition to the Malomir deposit, Group exploration confirmed the existence of two further major deposits at Malomir: Ozhidaemoye and Quartzitovoye. The Central Malomir and Ozhidaemoye deposits contain significant reserves of refractory ore. Quartzitovoye, however, consists of high-grade, non-refractory ore reserves. In 2013, the Group explored and brought into production a further non-refractory deposit, Magnetitovoye, c.6km east of Quartzitovoye. See page 52 for more on exploration at Malomir and page 58 for more on Malomir Reserves and Resources.

Infrastructure
Malomir benefits from the full suite of mining facilities, including: an on-site heating plant, an electricity supply, water supply, on-site accommodation, offices and ancillary facilities, a test laboratory and roads connecting the mine to local towns.

Mining and processing
Mining at Malomir is entirely open pit.

The presence of both significant refractory and non-refractory reserves led the Group to

Mineral Reserves and Resources

	Non Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Reserves	11,606	1.24	0.46	107,608	1.04	3.59	119,214	1.06	4.05
Measured and *Indicated* Resources	17,787	1.11	0.64	137,255	0.96	4.22	155,042	0.97	4.86
Inferred Resources	20,310	0.77	0.50	195,216	0.69	4.32	215,527	0.70	4.82

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

embark on a two-stage development plan for Malomir. This envisaged initially processing only the non-refractory material in an on-site RIP plant and later adding an on-site flotation plant for the conversion of refractory reserves into flotation concentrate, which could then be trucked to Pokrovskiy for processing in the POX Hub.

In line with this plan, currently, only non-refractory ore is being processed at Malomir. The Malomir flotation plant is under construction.

Performance in 2013

Malomir produced approximately 115,520oz of gold in 2013. The ore came predominantly from the Quartzitovoye oxide pit and the transitional zone of the refractory ore body at the Central pit.

During the year, the plant processed 2.7 million tonnes of ore with an average grade of 1.8g/t. The recovery rate increased compared with the previous year to 72.6%, but was still low due to the inclusion in the blend of transitional ore with a high sulphides content, which adversely affects the processing plant recovery.

The flotation plant at Malomir was 90% completed during the year but work has been suspended pending the commissioning of the POX plant at Pokrovskiy.

Costs

2013 TTC/oz for Malomir were US$1,027/oz (2012: US$911/oz) following a c.10% decrease in grades and a 14% increase in the stripping ratio compared to 2012.

See page 65 for more on costs.

Outlook

Production from Malomir in 2014 is expected to contribute approximately 16% of the Group's total production for the year. The Quartzitovoye pit is expected to be depleted in 2014. It is planned that the production thereafter will shift to satellite deposits, close to the processing plant, one of which is the high-grade Magnetitovoye zone. It is planned to produce ore at an average 2g/t for the processing plant from this zone. As a result of exploration work by the Group's specialists, the JORC Reserves and Resources for Magnetitovoye zone were recently evaluated.

Mining operations

	Units	Year ended 31 December 2013	Year ended 31 December 2012
Total material moved	m³ '000	13,667	16,042
Ore mined	t '000	2,694	3,438
Average grade	g/t	1.8	1.7
Gold content	oz '000	158.7	191.4

Processing operations

	Units	Year ended 31 December 2013	Year ended 31 December 2012
Resin-in-Pulp ('RIP') Plant			
Total milled	t '000	2,698	2,278
Average grade	g/t	1.8	2.0
Gold content	oz '000	159.2	149.2
Recovery rate	%	72.6	69.2
Gold recovered	oz '000	115.5	103.3
Total gold recovered	oz '000	115.5	103.3

Our assets
Albyn

Key facts

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

Mining
Open-pit.

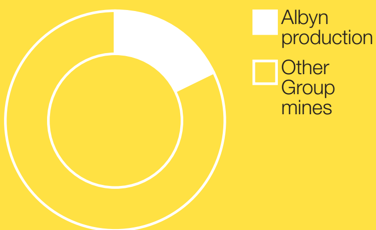
Processing
On-site 3.6Mtpa-4.0Mtpa RIP plant.

Licence acquired
2005 as a greenfield project; developed in-house.

Commercial start up
2011.

JORC Reserves and Resources
1.16Moz of Ore Reserves and 4.1Moz of Mineral Resources.

2013 gold production
c.134,810oz, equating to c.18% of the Group's total gold production for 2013.



Progress against strategic priorities

Value-adding exploration
Due to successful exploration, total Mineral Resources at Albyn increased from 3.47Moz in 2012 to 4.11Moz in 2013, despite depletion of 145Koz of gold as a result of mining.

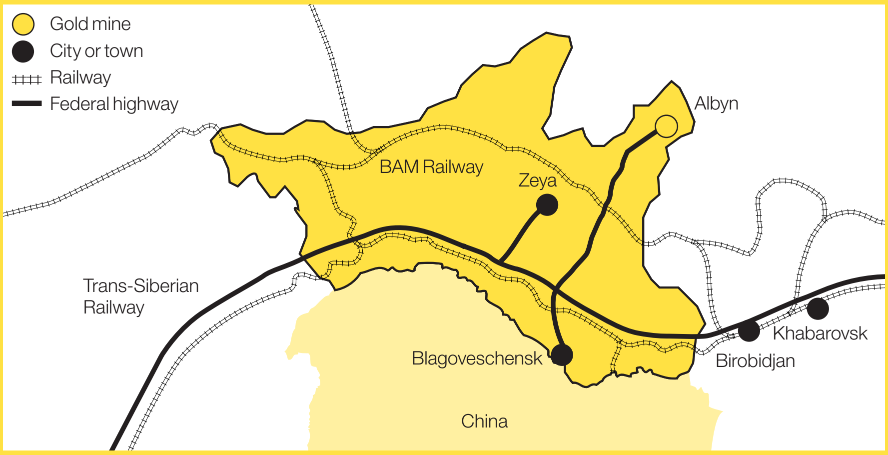
Asset development
During the year, the focus of activities at the mine was on the increase of volume of mining works for which part of mining fleet from Malomir was reallocated to Albyn as a result of which the volume of mining work more than doubled year-on-year.

Operational efficiencies
2013 TTC/oz for Albyn were US$1,006/oz (2012: US$980/oz), in line with the previous year in spite of a 23% decrease in processed grades and a 29% increase in the stripping ratio due to the continued operation of the plant and the doubling of its capacity.

Operating responsibly and safely
During the year the management of the mine decreased the number of safety violations from 7 in the previous year to 5.

Location

The Albyn mine is located in the Selemdja district in the north-east of the Amur region, an area of previously extensive alluvial mining. Albyn is located 150km from the Malomir mine.



Albyn is a hard-rock gold mine, 150km from Malomir in the north-west part of the Amur region, Russian Far East.

Albyn is the newest of the Group's mines and has produced more than 250,000oz since commissioning in Q4 2011.

The main Albyn licence area covers an area 40km². However, in addition, a number of other licence areas are close, or adjacent to, the Albyn site, thus are considered part of the project, namely: Kharginskoye, Elginskoye and Afanasevskaya. These licence areas give the Albyn project a combined total area of more than 1,160km², of which large parts remain under-explored. Initial exploration results have been promising however not all results have been fully reflected in Albyn's Mineral Resource statement. Consequently, Group geologists consider the mine to be highly prospective for further, significant gold discoveries.

Geology and Resources
The Albyn deposit lies within an area of previously-extensive alluvial gold mining.

Metallurgical tests completed to date have shown with confidence that the mineralisation at Albyn is entirely non-refractory, thus the entire mine's current Ore Reserves are potentially suitable for processing in the mine's operational RIP plant.

Ore at Albyn contains coarse particles of visible gold, giving high recovery rates of 90-95% using conventional direct cyanidation method. See page 52 for more on exploration at Albyn and page 59 for more on Albyn Reserves and Resources.

Infrastructure
As a working mine, infrastructure at Albyn includes: an on-site heating plant, an electricity supply, water supply, on-site accommodation, offices and ancillary facilities and roads. The deposit is located 2km from the nearest village, Zlatoustovsk, which has an all-year-round road connecting it to the BAM railway. As a result of previous mining activities near the mining site, the Group inherited substantial mining infrastructure when it acquired the Albyn licence, including access roads and a 35kV power line, which allowed the Group to make capital cost savings.

Mineral Reserves and Ore Resources

	Non Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Reserves	19,723	1.83	1.16	–	–	–	19,723	1.83	1.16
Measured and *Indicated* Resources	24,071	1.94	1.50	–	–	–	24,071	1.94	1.50
Inferred Resources	60,857	1.33	2.60	–	–	–	60,857	1.33	2.60

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

Mining and processing
Mining at Albyn is entirely open-pit. Ore is processed in an on-site RIP plant, which has a capacity of between 3.6Mtpa and 4.0Mtpa.

Performance in 2013
Albyn produced approximately 134,810oz of gold during 2013, an increase of 51% compared to 2012 as the processing plant worked to its full capacity throughout the year, following its ramp up in 2012.

During H1 2013, mining at Albyn focused on advanced stripping of the central part of the deposit to prepare the ore for delivery to the plant in H2. The processed ore in H1 came from the eastern part of the deposit which has a number of thin ore bodies interspersed with waste bands. This caused a high level of dilution and delays in the mining schedule, resulting in a c.8,000oz shortfall relative to planned gold production. In the central area, the ore bodies are higher grade, wider and easier to mine selectively.

During H2 2013, production at Albyn was negatively affected by flooding of the River Selemja. This made the river crossing impassable in October, thus hindering the supplies of fuel and spare parts to the mine. Consequently, the higher-grade ores, which were scheduled for processing in Q4, were not accessed.

Costs
2013 TTC/oz for Albyn were US$1,006/oz (2012: US$980/oz), in line with the previous year in spite of a 23% decrease in processed grades and a 29% increase in the stripping ratio due to the continued operation of the plant and the doubling of its capacity.

See page 65 for more on costs.

Outlook
In 2014, production from Albyn is expected to constitute approximately 31% of total production for the year and is expected to come predominantly from the central part of the pit.

Mining operations

	Units	Year ended 31 December 2013	Year ended 31 December 2012
Total material moved	m³ '000	23,865	10,604
Ore mined	t '000	4,009	2,219
Average grade	g/t	1.1	1.4
Gold content	oz '000	134.8	101.7

Processing operations

	Units	Year ended 31 December 2013	Year ended 31 December 2012
Resin-in-Pulp ('RIP') Plant			
Total milled	t '000	4,175	2,179
Average grade	g/t	1.1	1.4
Gold content	oz '000	145.0	98.2
Recovery rate	%	93.0	90.9
Gold recovered	oz '000	134.8	89.3
Total gold recovered	oz '000	134.8	89.3

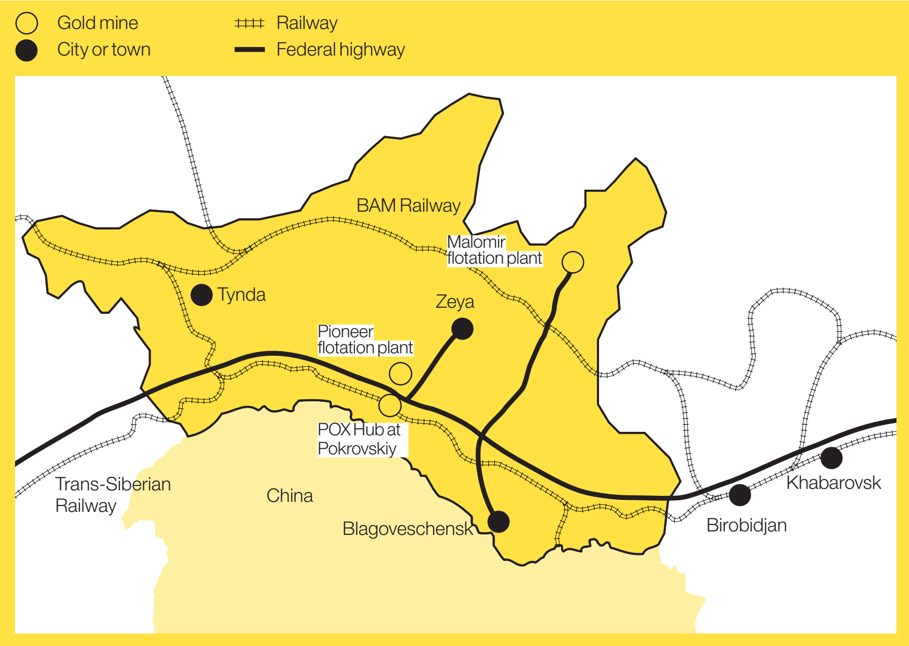
Our assets
POX Hub

Concept
The Group's long-term plan to turn the Pokrovskiy mine into a regional processing hub ('POX Hub') is expected to enable the Group to process refractory ore reserves: ore which cannot be processed in the Group's existing plants due to the presence of sulphides or other minerals which 'lock in' the gold particles, making the ore resistant to cyanide-based processing.

The Group's refractory reserves are mainly located at the Malomir and Pioneer mines. In order to process these reserves, it is envisaged they would first be upgraded into high-grade, flotation concentrate in onsite plants. This material would then be trucked to the Pokrovskiy mine where it would be subjected to extreme heat in a pressurised autoclave: a process called pressure oxidation ('POX'). This would break down the sulphides still present in the flotation concentrate and enable it to then be processed using Pokrovskiy's existing RIP plant, and ultimately smelted into doré bars at the mine's existing onsite facility.

The Pokrovskiy POX plant comprises of four autoclaves. Each autoclave is 15m long and 4m tall, weighs 116.5 tonnes and has an effective volume of 66m^3. 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.

It is currently expected that once commissioned the POX Hub would be the largest of its kind in Russia, with an estimated capacity to process 400,000t of flotation concentrate a year. The Group also estimates it will also be the most technologically-advanced POX facility for processing gold in Russia, able to extract gold from a wide range of refractory ores. The Directors believe that this would 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 the Russian Far East, the POX Hub also, potentially, opens up a new dimension for the Group's future growth.



Strategy for development
Following the drop in the gold price in Q2 2013, the Group reviewed its development plans and took the decision to slow down the pace of development of the POX Hub, thereby relieving pressure on the Group's capital expenditure requirements. In Q4 2013, a decision was taken to postpone further the commissioning of the POX facilities as new exploration results established that a steady, annual production of c.600,000oz for 2015-2019 could be achieved through the processing of non-refractory ore from the Group's existing facilities.

Progress in 2013
During Q1 2013, the four autoclaves were installed on their foundations and work was undertaken constructing the autoclave building around them.

Following a review of the Group's development, work at the POX Hub has focused mainly on honouring existing contracts and conservation of the site.

During H2 2013, the interior works on the four autoclaves, including lining with acid-resistant bricks and installation of baffle walls, was completed. In line with the Group's strict and comprehensive approach to quality assurance, work was conducted by specialist contractors, DSB Säurebau GmbH (Germany), who are considered by the Group to be global leaders in the field.

Work on the foundations and erection of the steel framework for the neutralisation building commenced during Q4.

By the end of 2013, the oxygen plant was 90% completed.

Outlook
Following the decision to postpone the commissioning of the POX Hub, work scheduled to be undertaken in 2014 will continue to be restricted to fulfilling existing contractual commitments.

Flotation Plant at Malomir
During H1 2013 the flotation plant at Malomir was mostly completed except for some piping and the electrical layout. The flotation cells and agitators as well as the filtration system were all installed but work at the plant was subsequently suspended in Q3 2013 pending commissioning of the POX plant at Pokrovskiy.

Our assets
Other projects

Alluvials

In 2013, the Group produced 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 2013, gold produced from the Group's alluvial operations totalled approximately 84,800oz (compared to 92,100oz in 2012). Due to the seasonal nature of the alluvial operations, the disposal in Q4 2013 of the high-cost alluvial assets held by Berelekh did not affect the production profile of the Group's alluvial assets for the year.

Costs
2013 TTC/oz for the Group's alluvial operations were US$1,319/oz, in line with the previous year. Although alluvial mining is less capital-intensive than hard-rock mining, following the drop in the gold price in 2013, the Group took steps to scale back production from high-cost assets with the sale of the alluvial operations held by Berelekh.

Outlook
Following the sale of Berelekh, alluvial gold production in 2014 is expected to be approximately 5% of total production for the year. The decrease in production from high-cost alluvial operations is expected to have a positive impact on total average costs for 2014.

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.

During 2013, the Group conducted permitting work at Visokoe, including the preparation of a feasibility study for the Russian authorities – FBU State Commission on Mineral Resources ('GKZ').

Visokoe is a significant non-refractory deposit that contains 1.2Moz of JORC gold Ore Reserves and a further c.1.3Moz of Mineral Resources. Visokoe reserves are suitable for heap leach and/or RIP recovery and therefore the Group is considering Visokoe to be a valuable asset for development in mid-term to be.

However, the Group has not allocated significant capital expenditure for this project in 2014 as it is awaiting the construction of the state power lines and an assessment of the economic viability of heap leaching which is expected to result in further improvements to the economic feasibility of the project. This project is planned to be the subject of a strategic review in August 2014.

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.

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. However, this asset has been fully impaired as there are currently no plans to develop it in the 2015-2019 period following the decline in the gold price and the consequential cutting of capital expenditure.

Yamal

Following optimisation of the Group's capital expenditure as well as a sharp decline in the gold price, the Group put on hold its existing development plans for the Yamal assets. Therefore, in 2012 Yamal's assets were impaired and in 2013 their JORC gold Reserves written off and removed from the Group's Reserves statement. The Group still quotes JORC Mineral Resources for its Yamal assets.

Guyana

In Guyana the Group holds a number of exploration licences covering an area of c.510km^2. Exploration completed to date includes geochemical and geophysical surveys and trenching allowing preliminary evaluation of an exploration target of c.100t of gold. During 2013, a small amount of field work was completed. The results are regarded as positive but are still being evaluated and interpreted. The Group's management believes that the exploration potential of the Guyana assets is high and further exploration work is justified but, in the short term, these assets are a low priority with no significant work planned for 2014.

IRC

IRC is a producer and developer of industrial commodities with its shares quoted on the Hong Kong Stock Exchange (Stock Code 1029).

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.

In January 2013, to fund its continued development, IRC announced a two-stage transaction for a US$238 million subscription for new shares by strategic Chinese investors General Nice Development Limited ('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. Stage 1 of the transaction was completed as planned, however liquidity constraints in China, as documented by the international press have resulted in a delay in the completion of Stage 2.

The following subscriptions have been made to date by General Nice:

- 851,600,000 new shares (including the deferred issue of 34,064,000 new shares), for HK$800.5 million (approximately US$103.1 million) in April 2013;
- 218,340,000 new shares for HK$205.2 million (approximately US$26.5 million) in December 2013;
- 165,000,000 new shares for HK$155.1 million (approximately US$20 million) in February 2014.

Accordingly, General Nice has invested more than 70% of its total commitments and the Board understands from the IRC and that General Nice remains committed to completing its full subscription and intends to make a payment of at least HK$155.1 million (approximately US$20 million) as further partial subscription by the end of April 2014.

Once General Nice has completed in full its Stage 2 subscription, Minmetals Cheerglory, under the terms of the agreements, will also invest c.US$30 million.

Following the subscription by General Nice, Petropavlovsk's shareholding in IRC as at 31 December 2013 was 48.70%. Following the further subscription in February 2014, this shareholding was reduced further to 46.98%.

Petropavlovsk continues to remain a controlling shareholder in IRC and IRC continues to be treated as a subsidiary 'held for sale' in the Group's consolidated financial statements.

On 27 March 2014, IRC issued its 2013 Annual Results, in which the following were noted as key highlights:

- Iron ore production targets at Kuranakh exceeded for third consecutive year;
- Kuranakh segmental EBITDA up 40% to US$22.8 million;
- Construction and mine development at K&S on track for first commercial production during second half of 2014;
- Group revenue growth, and net loss narrowed, both ahead of consensus estimates;
- Cash and deposits of US$98.4 million, compared to US$24.0 million at the end of 2012.

Further information may be obtained from the IRC website, www.ircgroup.com.hk.

Exploration Report

In 2013, the Group continued to focus exploration on areas near the Pokrovskiy, Pioneer, Malomir and Albyn operational mines. In addition, at the Nimanskaya licence area the exploration programme which commenced in 2012 was finalised.

The ongoing exploration programme in 2013 resulted in a 5.7Moz increase in the Group's non-refractory resources in accordance with the Russian GKZ Classification System, in spite of works being severely hampered in Q3 due to localised flooding. This figure includes 0.56Moz of Russian C_2 category, 1.82Moz in P_1 and 3.36Moz in P_2 categories.

The new resources are located in the areas close to existing processing facilities and 2.1Moz of new resources have been converted by the Group into JORC during H2 2013 and Q1 2014 and included in the JORC statement as at 31 December 2013.

2013 Summary Highlights:

Pioneer

- Strong exploration results from Pioneer, despite difficult terrain and localised flooding;
- The discovery in late 2012 of a new satellite deposit at Pioneer, 7-8km north of active pits, and the subsequent establishment of JORC resources in 2013 at two distinct zones of mineralisation, Alexandra and Shirokaya;
- High-grade pay shoot of Andreevskaya established;
- New, gold-bearing structure (Otvalnaya) established;
- Positive, early-stage results from Ivanovskaya.

Malomir

- The discovery of a non-refractory ore body, Magnetitovoye containing high-grade pay shoots;
- Further promising results yet to be reflected in JORC.

Albyn

- Increase in the overall resource base and the average grade of the resources;
- Promising results received from the nearby Elginskoye and Afanasevskaya licence areas.

Pokrovskiy and Satellites

- Partial upgrade of *Inferred* Mineral Resources at Burinda into JORC *Indicated* Mineral Resources and *Probable* Ore Reserves.

Nimanskaya

- Positive early-stage exploration results received in H1 2013, however considered a lower priority target due to its remote location (c.90km from Albyn).

Pioneer

Exploration work in 2013 was severely hampered in Q3 due to localised flooding, and resumed again in Q4 with in-fill drilling and metallurgical sampling. The local landscape over the deposit is shallow swamp ground. There are no natural rock exposures and the landscape allows only limited use of trenching as, in most places, trenches are instantly filled with swamp water. This also makes geochemical and geophysical surveys less efficient compared to some more favourable terrains. These factors slowed down exploration.

Alexandra and Shirokaya

In 2013, a new, substantial satellite deposit was explored c.7-8km north of active pits at Pioneer. The area of prospective gold mineralisation measures c.13x5km. So far, two distinct zones named Alexandra and Shirokaya, were explored here during 2013. The zones have a substantial thickness of up to 106m and lie close to the surface. These new findings are considered a suitable target for low-cost, open-pit mining with a low strip ratio.

A significant part of the Alexandra zone has now been drilled on a 160m x 60m to 20m x 20m grid. JORC *Measured*, *Indicated* and *Inferred* resources from Alexandra are included in the current JORC Mineral Resource statement. Part of the resource within an economical pit shell is in current JORC *Probable* reserve. The further exploration potential of Alexandra is associated with its east and south-east extensions. Metallurgical testing proves Alexandra to be non-refractory and therefore it is viewed as a source of non-refractory ore for the Pioneer plant in the short and mid-term.

The Shirokaya zone is at a less advanced stage of exploration. It is being drilled at a 160m-200m x 80m-40m grid. JORC *Inferred* resources have been estimated at Shirokaya however the zone is open in both strike directions therefore the resources are likely to be extended through further exploration. In-fill drilling is expected to provide a better definition for the high-grade areas and a possible increase in the average grade of the resources. Shirokaya holds both non-refractory and refractory mineralisation and is currently being considered as a second priority target.

The area in which Shirokaya and Alexandra are situated is considered to be prospective for the discovery of further gold bearing zones, including zones of high grade mineralisation.

Andreevskaya
In 2013, work on the western extensions of the high-grade Andreevskaya zone was completed. This work resulted in the discovery of an additional high-grade pay shoot.

Otvalnaya
In 2013, drilling undertaken a few hundred of meters north of the high-grade NE Bakhmut zone identified a parallel gold bearing structure, Otvalnaya. Exploration remains at an early stage with only a 800m long western portion of this zone has been drilled to date. Due to the relatively low grade of the known resources and an expected high strip ratio of the potential open pit, this zone is currently viewed as a lower priority target. Nevertheless, Group geologists believe that eastern extensions of Otvalnaya, which are yet to be drilled, may hold high-grade pay shoots similar to those found at the extensively-mined NE Bakhmut, therefore further exploration will be justified.

Ivanovskaya
In 2013, early scale exploration was also undertaken c.70km north of Pioneer, within the Ivanovskaya licence area. Gold grades in selected grab samples are up to 17g/t and up to 1.44g/t in channel trench samples. The results are to be promising but inconclusive.

Plan for 2014
It is planned that work at Alexandra, Shirokaya and Ivanovskaya will continue in 2014.

Malomir

Magnetitovoye
In 2013, exploration works near Malomir opened up areas of promising mineralisation. Of particular note, is the non-refractory ore body, Magnetitovoye, which is located c.6km to the east of the active Quartzitovoye pit. The better-explored areas of Magnetitovoye have been converted into JORC Mineral Resources and Ore Reserves and included in the Malomir Resource and Reserve statement.

Group geologists believe that the Magnetitovoye area remains prospective, offering opportunities for further discoveries. Several recent drill holes intersected high-grade extensions to the Magnetitovoye resources. The best intersections from this area include: 7m at 15.9g/t (drill hole 798-9), 5.8m at 1.95g/t and 10.2m at 2.77g/t (drill hole 798-8), 3m at 5.48g/t (drill hole 796-6), 9.9m at 1.27g/t (drill hole 794-7). These are yet to be included in the JORC Mineral Resource estimate.

A further new zone of mineralisation, which lies west of the Magnetitovoye JORC Mineral Resources, was identified by two trenches with intersections of 7.7m at 1.17g/t and 11.0m at 1.1g/t. This zone has yet to be added to the JORC estimate. All quoted thicknesses are apparent as seen in a drill hole or trench. The approximate angle between these intersections and the orientation of the mineralisation is between 60 and 30 degrees.

Further exploration
In addition, early-stage exploration completed 5-10km west of Malomir identified the Berezoviy exploration target, hosted within plageo-granites and metasomatites of a similar composition that host the Quartzitovoye high-grade ore body, which has been extensively mined by the Group.

The results received from this area to date include several geochemical anomalies as well as trench intersections of 5.4m at a grade of 1.99g/t; 4.2m at a grade of 1.59g/t and 0.80m at a grade of 52.5g/t. Work is at an early stage but these results are interpreted as promising.

Plan for 2014
It is planned to continue exploration in 2014 at Magnetitovoye and Berezoviy, as well as other exploration targets near Malomir.

Albyn

Elginskoye
In 2013, exploration work continued on the Elginskoye licence area. This work extended known mineralisation to the west, increasing the overall Mineral Resource base as well as increasing the average grade of the Mineral Resources.

The Elginskoye licence area covers several targets: the Elginskoye deposit (a principal target) and the Grozovoye, Ulgen and Leninskoye prospects.

The Elginskoye deposit has a strike length of c.5km. Drilling at 160mx80m drill centres defined a large, low-grade resource (c.1.63Moz at an average grade of 1.12g/t). Mineralisation at Elginskoye remains open in south-east and south-west directions offering further exploration potential.

Other targets within the Elginskoye licence area (Ulgen and Grozovoye) are considered prospective but low priority compared to Elginskoye deposit and the targets within the adjacent Afanasevskaya licence described below. No material exploration was conducted on Ulgen and Grozovoye during 2013.

Afanasevskaya licence area (Unglichikanskoye)
In 2013, work commenced at Afanasevskaya, a c.688km^2 licence area, which was acquired in 2012. This area lies to the west and north of the Albyn licence area and borders the Elginskoye licence area at the south-west.

In 2013, the work focused on Unglichikanskoye, a high-grade deposit c.15km north-west of the Albyn RIP plant. Unglichikanskoye is comprised of a series of parallel, high-grade steep dipping narrow veins with grades in selected samples up to 180g/t. Metallurgical tests demonstrate that Unglichikanskoye's high-grade mineralisation tends to respond well to cyanine leaching; therefore, Group geologists believe that it should be suitable for processing through the nearby Albyn RIP plant. The lower grade mineralisation is not always suitable for cyanidation and may require more sophisticated processing.

In 2013, a 1.3km central section of Unglichikanskoye was systematically drilled at 80m-spaced drill profiles. This work enabled the preparation of a JORC Mineral Resource estimate as well as a maiden JORC Ore Reserve statement for a small area covered by a pre-strip and sampled by c.5m spaced channels. The JORC Mineral Resources are open towards the north east as well as in a down dip direction: they therefore offer the opportunity to expand the mineral resource base. An area 3-6km south east of Unglichikanskoye is known as a source of placers and is considered by the Group geologists as prospective for further hard-rock gold discoveries.

Plan for 2014
Group geologists are of the opinion that in addition to Unglichikanskoye, the Afanasevskaya licence area covers several further highly promising prospects where only limited work was completed during 2013.

It is planned that the exploration here as well as at Unglichikanskoye will continue into 2014.

Pokrovskiy and Satellites

In 2013, exploration predominantly focused on the Burinda deposit (within the Taldan licence area) which lies c.150km by road from the Pokrovskiy RIP plant. In-fill drilling completed at Burinda resulted in a partial upgrade of *Inferred* Mineral Resources into JORC *Indicated* category and *Probable* Ore Reserves as well as in a small increase in total resources.

Early stage exploration completed within the Borovaya area, situated 5-10km from Pokrovskiy, has to date been inconclusive, finding only low grade refractory mineralisation of low economical interest.

In 2013, exploration work also continued on the Verkhne-Tygdinskaya licence area, c.12-30km south-west of Pokrovskiy. Low-grade gold mineralisation has been discovered in several drill holes and trenches, however results are considered inconclusive.

Plan for 2014
It is planned that exploration at Verkhne-Tygdinskaya will continue in 2014.

Nimanskaya

Exploration field work was conducted at the Nimanskaya area during H1 2013. Some trenching and surface sampling were completed. Sample assays and interpretations of the data collected during 2012 were undertaken.

Five gold-bearing zones have been identified and assessed at Nimanskaya. These zones are: Davidova, Yakutskaya, Dmitrievskaya, Burovaya and Yuzhnaya.

The Davidova Zone was traced along a strike length of c.3,500m and intersected by several trenches and by 25 drill holes. At a cut-off grade of 0.5g/t, intersections grading on average between 0.54g/t and 2.04g/t with a thickness of between 0.8m and 33.7m were identified. Preliminary estimates completed internally indicated a resource target of c.1.3Moz at an average grade of 1.2g/t (c.32Mt of mineralised material).

The Yakutskaya Zone has been mapped 100m-300m to the east from Davidova Zone at a strike length of 1,200m and intersected in two exploration profiles. The apparent width at the surface is 20m with the average grade of 1.34g/t. Individual samples show grades up to 6.7g/t.

The Dmitrievskaya Zone has been traced along a 7,700m strike length. The grades of intersections (at a 0.5g/t cut-off grade) vary from 0.7g/t to 24.4g/t with thickness of 0.7m to 12.7m. Yakutskaya and Dmitrievskaya are estimated as c.400Koz (10Mt of mineralised material at 1.3g/t).

The Burovaya Zone has been explored along a strike length of c.850m by trenches and six drill holes. Assay results received to date show gold mineralisation at the surface with a visible width of 46m at an average grade of 1.17g/t (one intersection) and 5.3m at 3.79g/t at the depth in the drill hole intersection. The Yuzhnaya Zone was explored over a strike length of 160m in three trenches and four drill holes. The best intersections identified to date include 6.0m at 7.0g/t, 10.7m at 1.16g/t, 8.2m at 31.1g/t, 39.1m at 18.68g/t (quoted thicknesses are apparent) on average. The orientation of the mineralisation in relation to the direction of the drill holes is not yet clear; the former high-grade, thick intersections are likely to be from the drill holes drilled along the dip direction of a much narrower structure. Nevertheless, these results are considered by the Group's geologists to be extremely encouraging. Grades in the individual samples are up to 318.2g/t.

Plan for 2014
Due to its remote location, some 90km south of Albyn with no usable road to connect two sites, Nimanskaya is considered a lower priority target. Although results received to date have been promising, no field exploration is budgeted at Nimanskaya for 2014. However, exploration is likely to resume in the future as the area is considered highly prospective for the discovery of a significant gold resource.

Reserves and Resources

2013 Summary Highlights

- Total Group JORC Resources increased by 740Koz from 25.06Moz to 25.8Moz, after 815Koz depletion, 542Koz of sales and 14Koz of write offs during 2013;
  - Approximately 2.1Moz were added in total JORC Mineral Resources at the Group's main mines as a result of successful exploration activities;
  - Average grade of total resources stayed virtually unchanged at 0.9g/t in spite of 2013 depletion grade being 60% higher than the average grade of the Mineral Resources.
- Total JORC Ore Reserves decreased by c.800Koz from c.10Moz to c.9.2Moz, due to depletion and write offs;
  - The increase in Ore Reserves at Pioneer, Albyn, Malomir and Burinda in part offsets the depletion and write-offs;
  - All new discoveries are non-refractory.
- Non-refractory JORC Mineral Resources increased by c.1.5Moz from 12.3Moz to 13.8Moz; after 815Koz depletion during 2013;
  - 2.3Moz were added in total;
  - Average grade of the non-refractory resources unchanged.
- Non-refractory JORC Ore Reserves decreased by 440Koz from 4.83Moz to 4.39Moz due to depletion, write offs and disposals;
  - Increase in non-refractory reserves before depletion and write-offs of c.745Koz;
  - The average grade improved from 1.19g/t to 1.21g/t;
  - Depletion and write-offs of non-refractory Ore Reserves were off-set by additions and also by re-classification of refractory material at NE-Bakhmut (Pioneer) and Quartzitovoye (Malomir);
  - All new non-refractory Ore Reserves are at or near the Group's operational mines and should be suitable for processing at the existing facilities.
- Refractory JORC Ore Reserves decreased by 354Koz from 5.17Moz to 4.82Moz mainly due to the reclassification of some material at Pioneer and Malomir into non-refractory Reserves;
- 2014 work is focusing on converting newly established non-refractory Resources into Reserves as well as in expanding the non-refractory Mineral Resource base at and near the Group's operational mines;
- The Company's Ore Reserve estimate is based on a long term gold price assumption of US$1,200/oz for Albyn and Visokoe;
- Ore Reserve estimates for the new ore bodies prepared during 2013 and 2014 for Alexandra (Pioneer), Unglichikanskoye and Elginskoye (Albyn) as well as Magnetitovoye and Quartzitovoye (Malomir) use a long term gold price assumption of US$1,250/oz;
- The US$1,000/oz gold price assumption continues to be used for all other projects, together with related factors, such as operating costs and metallurgical recoveries, as reviewed previously by independent advisors, Wardell Armstrong International ('WAI') in 2011/12;
- All Ore Reserves are for open pit extraction and are reported within economic open pit shells;
- The Company has previously announced the identification of 5.7Moz of reserves and resources defined by the Russian GKZ Classification System, of which 2.1Moz (includig depletion and disposals) were converted into current JORC Reserves and Resources.

The Mineral Resource and Ore Reserve statements were prepared internally by the Group following the methodology advised by WAI. The updated estimates for the Group's hard-rock assets have been prepared in accordance with the guidelines of the JORC Code by the Group's technical experts. An extensive exploration programme, metallurgical laboratory testing and technical work conducted by the Group formed the basis of these estimates.

A summary of the Group's Ore Reserves is tabulated below:

Ore Reserve as at 31 December 2013
in accordance with the JORC Code.

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz Au)
Total Ore Reserves	*Proven*	29,195	1.34	1.26
	Probable	226,057	1.09	7.95
	Total *(Proven+Probable)*	255,252	1.12	9.21
Non-Refractory Ore Reserves	*Proven*	9,409	1.57	0.48
	Probable	100,629	1.21	3.92
	Total *(Proven+Probable)*	110,038	1.24	4.39
Refractory Ore Reserves	*Proven*	19,786	1.23	0.78
	Probable	125,428	1.00	4.03
	Total *(Proven+Probable)*	145,214	1.03	4.82

Note: Figures may not add up due to rounding.

A summary of Ore Reserves for the Group's core currently producing assets, which includes Pioneer, Pokrovskiy, Malomir, Albyn and Burinda is provided in a separate table below. These Reserves are included in the table above and are not additional.

Ore Reserve at Group's Core Assets in Amur Region as at 31 December 2013
in accordance with the JORC Code.

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz Au)
Total Ore Reserves	*Proven*	27,167	1.33	1.16
	Probable	190,060	1.08	6.62
	Total *(Proven+Probable)*	217,227	1.11	7.79
Non-Refractory Ore Reserves	*Proven*	7,381	1.60	0.38
	Probable	64,632	1.25	2.59
	Total *(Proven+Probable)*	72,013	1.28	2.97
Refractory Ore Reserves	*Proven*	19,786	1.23	0.78
	Probable	125,428	1.00	4.03
	Total *(Proven+Probable)*	145,214	1.03	4.82

Note: Figures may not add up due to rounding.

Reserves and Resources continued

A summary of the Group's Mineral Resources is tabulated below:

Total Group Mineral Resources as at 31 December 2013
in accordance with the JORC Code.

	Category	Tonnage (Kt)	Grade (g/t Au)	Contained Metal (Moz Au)
Total Mineral Resources	*Measured*	61,257	1.18	2.32
	Indicated	381,024	0.98	12.06
	Measured+Indicated	442,280	1.01	14.38
	Inferred	445,547	0.80	11.45
Non-refractory Mineral Resources	*Measured*	36,078	1.22	1.41
	Indicated	188,400	1.07	6.51
	Measured+Indicated	224,478	1.10	7.92
	Inferred	187,876	0.98	5.90
Refractory Mineral Resources	*Measured*	25,179	1.13	0.91
	Indicated	192,624	0.90	5.55
	Measured+Indicated	217,802	0.92	6.46
	Inferred	257,672	0.67	5.55

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

A summary of Mineral Resources for the Group's core assets, which includes Pioneer, Pokrovskiy, Malomir, Albyn and Burinda, is provided in a separate table below. These Mineral Resources are reported inclusive of Ore Reserves.

Mineral Resources at the Group's Core Assets in the Amur Region as at 31 December 2013
in accordance with the JORC Code.

	Category	Tonnage (Kt)	Grade (g/t Au)	Contained Metal (Moz Au)
Total Mineral Resources	*Measured*	39,722	1.13	1.44
	Indicated	313,793	0.96	9.65
	Measured+Indicated	353,515	0.98	11.09
	Inferred	393,937	0.77	9.76
Non-refractory Mineral Resources	*Measured*	14,544	1.14	0.53
	Indicated	121,169	1.05	4.10
	Measured+Indicated	135,713	1.06	4.63
	Inferred	136,266	0.96	4.21
Refractory Mineral Resources	*Measured*	25,179	1.13	0.91
	Indicated	192,624	0.90	5.55
	Measured+Indicated	217,802	0.92	6.46
	Inferred	257,672	0.67	5.55

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

In addition to the Ore Reserves and Mineral Resources estimated in accordance with the JORC Code, the Group holds significant alluvial gold reserves and resources estimated in accordance with the Russian GKZ Classification System. A summary of the alluvial resources and reserves is presented below:

Alluvial Reserves as at 31 December 2013
in accordance with the Russian GKZ Classification System.

	Category	Volume ('000m^3)	Grade (g/m^3 Au)	Contained Metal (Moz Au)
Alluvial reserves	*B*	1,443	0.23	0.01
	C_1	38,725	0.27	0.34
	Sub-total (B+C_1)	40,169	0.27	0.35
	C_2	2,994	0.24	0.02
	Total (B+C_1+C_2)	43,163	0.27	0.37

Alluvial Resources as at 31 December 2013
in accordance with the Russian GKZ Classification System.

	Category	Volume ('000m^3)	Grade (g/m^3 Au)	Contained Metal (Moz Au)
Alluvial resources	*B*	5,797	0.11	0.02
	C_1	60,993	0.20	0.40
	Sub-total (B+C_1)	66,790	0.19	0.42
	C_2	8,317	0.12	0.03
	Total (B+C_1+C_2)	75,107	0.19	0.45

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

– *Ore reserves include only On-Balance material (defined as per the Russian GKZ Classification System) for open-cut and dredge extraction. Resources include the ore reserves, Off-Balance material (defined as per the Russian GKZ 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 GKZ 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.*

Comments on resource and reserve estimate

Mineral Resource and Ore Reserve statements are quoted as 100% in the case of the Group's subsidiaries, whilst the Reserves and Resources of the Group's associates are excluded from this statement. For more details on classification of the Group's subsidiaries and associates please refer to note 36 of the Group's consolidated financial statements.

Mineral Resources and Ore Reserves estimates for Alexandra (Pioneer), Burinda (part of Pokrovskiy), Unglichikanskoye and Elginskoye (Albyn) as well as Magnetitovoye (Malomir) were prepared in Q1 2014 in accordance with JORC Code (2012). Mineral Resource and Ore Reserve estimates for all other zones were originally prepared in 2010-2012, before the JORC Code (2012) came into force, thus follow the guidelines of the JORC Code (2004). Apart from depletion, Resource models for these areas have not changed since their preparation as there has been no material exploration of these areas during 2013. Therefore, Mineral Resources and Ore Reserves for all other zones are reported in accordance with JORC Code (2004). Going forward, the Group intends to follow the JORC Code (2012) guidelines for the preparation of all new estimates and maintain the JORC (2004) estimates for the areas where no additional exploration has occurred, thus leaving Mineral Resources unchanged or changed only as a result of depletion.

Pioneer

During 2013, exploration at the Group's flagship mine, Pioneer, resulted in the addition of c.1.11Moz of gold into JORC Mineral Resources. Taking into account depletion of 400Koz of gold during the year, the net increase was 770Koz.

The resource additions came predominantly from Alexandra and Shirokaya, two zones discovered north of Pioneer. Together they contributed c.530Koz of non-refractory and c.540Koz of refractory resources (c.350Koz is in the *Indicated* category and predominantly non-refractory).

Following additional sampling and metallurgical testing, areas of the Vostochnaya zone were upgraded to *Indicated* category and re-classified as non-refractory. Parts of NE Bakhmut's refractory resources were re-classified as non-refractory on the basis of successful trial processing through the RIP plant and re-interpretation of existing metallurgical test results. This process resulted in the transfer of c.320Koz of *Indicated* and c.45Koz of *Inferred* resources from refractory to non-refractory.

Ore Reserve changes included evaluation of non-refractory *Probable* Ore Reserves at Alexandra and Vostochnaya – these are additional and new reserve estimates. These two zones contributed c.210Koz of gold Reserves at an average grade of 0.82g/t, with a strip ratio of 1.4m^3/t.

Conversion of the NE Bakhmut refractory resources to non-refractory resulted in a c.200Koz increase in non-refractory Reserves (in 4.4Mt of ore at 1.4g/t average grade) and a corresponding c.200Koz decrease in refractory ore reserves. NE Bakhmut open pit and total Reserves did not change.

With the exception of Alexandra, Ore Reserves for all zones were estimated using a US$1,000/oz long term gold price with modifying factors (such as operating costs and metallurgical recovery) reviewed by WAI in 2011. Alexandra Ore Reserves were estimated using a long term gold price assumption of US$1,250/oz and modifying factors estimated internally following a methodology set by WAI as part of their 2011 technical report.

Malomir

During 2013, changes in Mineral Resources at Malomir were driven by mine depletion and additions from the newly acquired Magnetitovoye satellite ore body located 6km east of the Quartzitovoye pit. In 2013, c.160Koz of gold were sent to processing and depleted from the deposit and c.105Koz (1.87Mt at 1.63g/t in *Measured* and *Indicated* and 86kt at 1.66g/t in *Inferred* categories) were added to the Mineral base as a result of successful exploration at Magnetitovoye;

Following successful processing trials and metallurgical testing conducted on Quartzitovoye refractory material, refractory resources were re-classified to non-refractory adding c.326Koz (c.290Koz at 1.07g/t of *Indicated* and c.35Koz at 0.7g/t of *Inferred*) to the Malomir non-refractory Mineral Resource base;

Successful exploration at Magnetitovoye resulted in the addition of c.65Koz to JORC *Probable* non-refractory Reserves (in 1.1Mt at an average grade of 1.8g/t). Ore from Magnetitovoye is already being processed through the Malomir processing plant. Changes in the refractory/non-refractory resource classification at Quartzitovoye allowed open pit re-optimisation and a corresponding c.260Koz (6.0Mt of ore at 1.34g/t average grade) increase in non-refractory Ore Reserves. New Reserves at Magnetitovoye and updated Reserves at Quartzitovoye were estimated using a long term gold price assumption of US$1,250/oz and modifying factors estimated internally following the methodology set by WAI in their 2011 technical report;

These changes, together with depletion, resulted in a c.220Koz increase in non-refractory Ore Reserves at the Malomir project.

Refractory Reserves changed from c.3.8Moz to 3.6Moz, reflecting mining and Reserve changes at Quartzitovoye.

Albyn

Successful exploration within the Afanasevskaya licence area has confirmed historical resources at the Unglichikanskoye deposit, c.10km north of Albyn. A total of 550Koz of JORC Resources (910kt of ore at a grade of 1.55g/t of *Indicated* and further 8,380kt of ore at 1.88g/t average grade of *Inferred*) were estimated as at 31 December 2013. Exploration also resulted in an increase in JORC Ore Resources at Elginskoye from 1,340 to 1,630Koz, of which 46Koz in 1.38Mt of ore (average grade 1.03g/t) is in the *Indicated* category and 1,580Koz in c.43.8Mt of ore (average grade 1.12g/t) is *Inferred*. Additional drilling and subsequent changes to the resource model also resulted in average grade improvements from 0.86g/t to 1.12g/t.

Total Mineral Resources at Albyn increased from 3.47Moz to 4.11Moz, despite depletion of 145Koz of gold as a result of mining.

Total Ore Reserves at Albyn changed from 1.27 to 1.16Moz. Changes included depletion of 145Koz due to mining and additions of 44Koz (in 1.3Mt of ore at 1.05g/t) and 35Koz (in 0.57Mt of ore at 1.87g/t) of *Probable* Ore Reserves at Elginskoye and Unglichikanskoye respectively.

The new Ore Reserves at Elginskoye and Unglichikanskoye were estimated internally by the Group using a long term gold price assumption of US$1,250/oz and modifying factors estimated internally following the methodology set out by WAI in their 2011 technical report. Ore from both Unglichikanskoye and Elginskoye will be processed at the existing Albyn processing plant, thus minimising any capital expenditure outlay.

Albyn Ore Reserves are reported on the basis of the 2012 model using a US$1,200/oz long term gold price with modifying factors (such as operating costs, metallurgical recovery and open-pit shell design) reviewed by WAI in 2012.

Pokrovskiy

During 2013, Ore Reserves at Pokrovskiy changed as a result of mining and the write-off of low grade primary Reserves at Pokrovka-2. A total of c.120Koz was depleted from Pokrovskiy (including a small depletion of Reserves at Burinda) and a further c.200Koz (in 10.8Mt of ore at an average grade of 0.6g/t) of Pokrovka-2 low grade Reserves were removed from the statement as they are no longer considered to be economical. In addition, the low grade stockpile of heap leach residual material was re-sampled and re-evaluated. This not only resulted in some low grade sections of the stockpile being removed from the Reserves but also in an increase of stockpile average grade from 0.36g/t to 0.65g/t. Approximately 14Koz of gold Reserves were written off as a consequence.

A small quantity of reserves at the Rucheinoe ore body, at Pokrovka-2, was evaluated and added to the reserves and resources statement.

In-fill drilling and additional trenching at Burinda (Taldan licence) completed during 2013 resulted in parts of the *Inferred* resources being upgraded into the *Indicated* category. This allowed evaluation of 65Koz (0.97Mt at an average grade of 2.06g/t) of JORC Ore Reserves. These Reserves are scheduled for processing through the Pokrovskiy RIP plant in 2014 and 2015.

Other Areas

In July 2013, the Group reduced its holding in JSC Verkhnetisskaya Ore Mining Company ('Verkhnetisskaya') to 49%. As a result of this transaction, Verkhnetisskaya ceased to be a subsidiary of the Group and its mineral resources were removed from the resources statement. Verkhnetisskaya holds 540Koz of *Inferred* Refractory gold Mineral Resources at Olenka gold deposit in the Krasnoyarsk Region.

Following the Group's cost-cutting programme as well as a sharp decline in the gold price, the Group no longer believes that development of current Yamal Ore Reserves into production is economically feasible. Therefore, Yamal's 370Koz of gold Reserves (Petropavlovskoye deposit) were written off and removed from the Group's JORC Reserves statement. The Group still quotes JORC Mineral Resources for its Yamal assets.

In November 2013, the Group disposed of Berelekh, its producing alluvial asset in the Magadan Region. Consequently, alluvial reserves (estimated in accordance with the Russian GKZ Classification System) decreased from 0.59Moz to 0.37Moz. Alluvial mineral resources (including reserves) decreased from 1.05Moz to 0.45Koz. The Group continues to operate a number of alluvial deposits in the Amur Region with combined annual production of c.35Koz of gold.

Chief Financial Officer's Statement

Andrey Maruta

Financial highlights

	2013 US$ million	2012 Restated[a] US$ million
Continuing operations		
Total attributable gold production ('000oz)	741.2	710.4
Gold sold ('000oz)	736.3	703.2
Group revenue	1,199.8	1,235.5
Average realised gold price (US$/oz)	1,519	1,670
Total average cash cost (US$/oz)	1,016	875
Total cash costs for hard-rock mines (US$/oz)	976	805
Underlying EBITDA[b]	324.6	499.0
Net (loss) / profit for the period from continuing operations	(513.8)	1.2
Before exceptional items	(71.0)	118.7
Exceptional items[c]	(442.8)	(117.5)
Discontinued operations		
Net loss for the period from discontinued operations	(199.4)	(245.1)
Before exceptional items	(18.9)	(26.3)
Exceptional items[c]	(180.4)	(218.8)
Total loss for the period	(713.2)	(243.9)
Before exceptional items	(89.9)	92.5
Exceptional items[c]	(623.3)	(336.4)
Basic (loss) / earnings per share	(US$3.11)	(US$0.81)
From continuing operations	(US$2.59)	US$0.00
From discontinued operations	(US$0.52)	(US$0.81)
Net cash from operating activities	281.6	271.9

(a) Following presentation of IRC as a discontinued operation as detailed further on page 154 to 156 of this Annual Report.

(b) Reconciliation of profit / (loss) for the year and underlying EBITDA is set out in note 35 to the consolidated financial statements on page 164 of this Annual Report.

(c) Exceptional items are those detailed in notes 6, 9 and 27 to the consolidated financial statements on pages 139 to 141, 142 and 154 to 156 of this Annual Report.

	31 December 2013 US$ million	31 December 2012 US$ million
Cash and cash equivalents	170.6	159.2
Loans	(818.7)	(870.0)
Convertible bonds[d]	(300.3)	(352.5)
Net debt	(948.4)	(1,063.3)

(d) The liability component of US$310.5million (2012: US$380million) Convertible Bonds due 18 February 2015 is measured at amortised cost.

Revenue

	2013 US$ million	2012 Restated US$ million
Revenue from hard-rock mines and alluvial operations	1,122.5	1,181.6
Revenue from other operations	77.3	53.9
Total	1,199.8	1,235.5

Physical volumes of gold production and sales

	2013 oz	2012 oz
Gold sold from Pokrovskiy, Pioneer, Malomir, Albyn	651,477	610,847
Gold sold from alluvial operations	84,867	92,342
Movement in gold in circuit and doré-bars	4,856	7,211
Total attributable production	741,200	710,400

Group revenue during the period was US$1,199.8 million, 3% lower than the US$1,235.5 million achieved in 2012.

Revenue from hard-rock mines and alluvial operations was US$1,122.5 million, 5% lower than the US$1,181.6 million achieved in 2012. Gold remains the key commodity produced and sold by the Group, comprising 94% of total revenue generated in 2013. The physical volume of gold sold increased by 5% from 703,189 ounces in 2012 to 736,344 ounces in 2013 which was offset by a 9% decrease in the average realised gold price from US$1,670/oz in 2012 to US$1,519/oz in 2013.

The Group sold 176,638 ounces of silver in 2013 at an average price of US$21/oz, compared to 260,290 ounces in 2012 at an average price of US$30/oz.

Cash flow hedge arrangements

In order to increase certainty in respect of a significant proportion of its cash flows, the Group has entered into financing contracts to sell an aggregate of 723,430 ounces of gold over a period ending 31 December 2014 at an average price of US$1,527 per ounce.

Financing contracts to sell a total of 444,292 ounces of gold matured during the year and contributed US$107.7 million to cash revenue and US$146/oz to the average realised gold price.

Financing contracts to sell an aggregate of 279,138 ounces of gold at an average price of US$1,429 per ounce are outstanding as at 31 December 2013. In January 2014, the Group has entered into financing contracts to sell a further total of 85,115oz of gold during the year 2014 at an average price of US$1,250/oz.

Revenue generated as a result of third-party work by the Group's in-house service companies contributed to a US$23.4 million increase in revenue from US$53.9 million in 2012 to US$77.3 million in 2013. This was primarily attributable to sales generated by the Group's engineering and research institute, Irgiredmet, of US$68.4 million in 2013 compared to US$47.8 million in 2012, primarily through engineering services and the procurement of materials, consumables and equipment for third parties.

Impairment review

Impairment of mining assets and goodwill

During 2013, the gold price declined significantly and remained at those lower levels which also resulted in a revised long-term gold price outlook. In response to the declining gold price environment, the Group undertook an impairment review of the tangible assets and goodwill attributable to the gold mining projects and the supporting in-house service companies.

As a result, in the first half of 2013 the Group recorded impairment charges to the extent that recoverable amounts did not support the relevant carrying values of assets on the balance sheet as at 30 June 2013.

In the second half of 2013, the Group undertook certain cost optimisation measures in response to the declining gold price environment and increased its non-refractory mineable reserves.

As a result of the aforementioned measures no further impairment was required as at 31 December 2013.

Impairment charges recognised against the tangible assets and goodwill attributable to the gold mining projects and the supporting in-house service companies during 2013 are set out below:

	Impairment of goodwill US$ million	Impairment of property, plant and equipment US$ million	Pre-tax impairment charge US$ million	Taxation US$ million	Post-tax impairment charge US$ million
Pokrovskiy	–	22.7	22.7	(4.5)	18.2
Pioneer	–	88.9	88.9	(17.8)	71.1
Malomir	–	156.0	156.0	(17.9)	138.1
Albyn	–	17.6	17.6	(3.5)	14.1
In-house service companies	21.7	104.4	126.1	(7.2)	118.9
	21.7	389.6	411.3	(50.9)	360.4

The forecast future cash flows are based on the Group's current mining plan and reflect certain cost optimisation measures implemented in response to the declining gold price environment. The other key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out below:

	Year ended 31 December 2013	Year ended 31 December 2012
Long-term gold price	US$1,250/oz	US$1,680/oz
Discount rate [(a)]	9.5%	8.6%
RUS/ US$ exchange rate	RUR33/US$	RUR31.5/US$

(a) Being the post-tax real weighted average cost of capital.

Impairment of exploration and evaluation assets

The Group performed a review of its exploration and evaluation assets and recorded the following impairment charges in the first half of 2013:

- An exceptional US$62.2 million post-tax impairment charge (being US$63.6 million gross impairment charge net of reversal of associated deferred tax liabilities) was recorded against the Tokur assets which are awaiting development of a full-scale mining operation and which has been put on hold to minimize Group's CAPEX in the current gold price environment; and
- Further non-exceptional US$31.4 million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various licence areas, primarily located in the Amur region.

No further impairment of exploration and evaluation assets was recognised in the second half of 2013.

Impairment of ore stockpiles
The Group assessed the recoverability of the carrying value of ore stockpiles and recorded impairment charges as set out below:

	Non-exceptional items			Exceptional items			Total		
	Pre-tax impairment charge US$ million	Taxation US$ million	Post-tax impairment charge US$ million	Pre-tax impairment charge US$ million	Taxation US$ million	Post-tax impairment charge US$ million	Pre-tax impairment charge US$ million	Taxation US$ million	Post-tax impairment charge US$ million
Pokrovskiy	4.4	(0.9)	3.5	3.3	(0.7)	2.7	7.7	(1.5)	6.2
Pioneer	6.2	(1.2)	5.0	30.0	(6.0)	24.0	36.3	(7.3)	29.0
Malomir	(0.7)	0.1	(0.6)	9.9	(1.9)	8.0	9.2	(1.8)	7.4
Albyn	1.4	(0.3)	1.1	1.1	(0.2)	0.8	2.4	(0.5)	1.9
	11.3	(2.3)	9.0	44.3	(8.8)	35.5	55.6	(11.1)	44.5

The US$44.3 million pre-tax impairment of stockpiles recognised during the first half of 2013 was considered by the Directors to be exceptional as it resulted from the significant decline in the gold price and related to ore stockpiles which were substantially mined in prior periods. A further US$11.3 million pre-tax impairment of stockpiles recognised in the second half of 2013 primarily related to this year's mining activity and therefore was considered by the Directors to be non-exceptional.

Exceptional items
The Group has separately disclosed 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 were considered as exceptional:

- US$411.3 million impairment of tangible assets and goodwill;
- US$63.6 million impairment of Tokur exploration and evaluation assets;
- US$44.3 million impairment or ore stockpiles;
- US$4.2 million loss on disposal of the Group's entire investment (76.62 %) in the alluvial operations of Berelekh; and
- US$19.4 million gain on buy-back of Convertible Bonds.

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

	2013			2012 Restated		
	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million
Underlying EBITDA	328.8	(4.2)	324.6	500.5	(1.5)	499.0
(Loss) / profit for the period from continuing operations	(71.0)	(442.8)	(513.8)	118.7	(117.5)	1.2

Underlying EBITDA and analysis of operating costs

	2013			2012 Restated		
	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million
(Loss) / profit for the period from continuing operations	(71.0)	(442.8)	(513.8)	118.7	(117.5)	1.2
Add / (less):						
Interest expense	75.3	–	75.3	73.2	–	73.2
Investment income	(0.9)	–	(0.9)	(1.7)	–	(1.7)
Other finance (gains) / losses	–	(19.4)	(19.4)	13.6	–	13.6
Foreign exchange losses / (gains)	5.8	–	5.8	(6.4)	–	(6.4)
Reversal of gain attributed to re-measuring equity interest in Omchak[(a)]	–	–	–	–	25.4	25.4
Taxation	52.2	(61.1)	(8.9)	47.9	(8.8)	39.1
Depreciation	224.8	–	224.8	215.4	–	215.4
Impairment of mining assets and goodwill	–	411.3	411.3	–	51.4	51.4
Impairment of exploration and evaluation assets	31.3	63.6	94.9	10.1	48.0	58.1
Impairment of ore stockpiles	11.3	44.3	55.6	29.7	–	29.7
Underlying EBITDA	328.8	(4.2)	324.6	500.5	(1.5)	499.0

(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.

Underlying EBITDA as contributed by business segments is set out below.

	2013			2012 Restated		
	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million	Before exceptional items US$ million	Exceptional items US$ million	Total US$ million
Pokrovskiy	31.2	–	31.2	77.7	–	77.7
Pioneer	206.2	–	206.2	314.8	–	314.8
Malomir	53.9	–	53.9	77.4	–	77.4
Albyn	66.3	–	66.3	58.2	–	58.2
Alluvial operations	13.3	(4.2)	9.1	32.7	2.4	35.1
	370.9	(4.2)	366.7	560.8	2.4	563.2
Corporate and other	(42.1)	–	(42.1)	(60.3)	(3.9)	(64.2)
Underlying EBITDA	328.8	(4.2)	324.6	500.5	(1.5)	499.0

Hard-rock mines and alluvial operations
This period, hard-rock mines and alluvial operations generated underlying EBITDA before exceptional items of US$370.9 million compared to US$560.8 million underlying EBITDA in 2012. The average total cash costs per ounce for the Group increased from US$875/oz in 2012 to US$1,016/oz in 2013. Total cash costs for hard-rock mines increased from US$805/oz in 2012 to US$976/oz in 2013, primarily reflecting the scheduled decrease in grades processed at Pioneer, Malomir and Albyn, decrease in recovery rates at Pioneer and Pokrovskiy, effects of flooding and industry-specific cost inflation, resulting in a net US$106.0 million decrease in underlying EBITDA. The decrease in the average realised gold price from US$1,670/oz in 2012 to US$1,519/oz in 2013, partially offset by the increase in physical ounces sold, contributed to a further US$83.9 million decrease in underlying EBITDA compared to 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, production volumes of ore mined and processed, grades of ore processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate.

Compared with 2012 there was some inflation of Rouble denominated costs, in particular, electricity costs increased by 7%, cost of chemical reagents increased by 15%, cost of diesel increased by 3% and consumables prices increased by up to 10%. The impact of Rouble price inflation was partially mitigated by the 3% average depreciation of the Rouble against the US Dollar, with the average exchange rate for the period going from 31.1 Roubles per US Dollar in 2012 to 31.9 Roubles per US Dollar in 2013.

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

	2013		2012 Restated	
	US$ million	%	US$ million	%
Staff cost	146.6	24	158.1	25
Materials	194.4	32	173.7	28
Fuel	109.8	18	102.5	16
Electricity	49.4	8	43.0	7
Other external services	65.6	11	105.7	17
Other operating expenses	41.1	7	48.4	7
	606.9	100	631.4	100
Movement in ore stockpiles, work in progress and bullion in process attributable to gold production[(a)]	17.2		(161.4)	
Total operating cash expenses	624.1		470.0	

(a) Excluding deferred shipping.

	Hard-rock mines				Alluvial operations	2013 Total	2012 Total Restated
	Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	US$ million	US$ million	US$ million
Revenue							
Gold	487.4	138.6	170.0	197.5	125.2	1,118.7	1,173.8
Silver	2.3	0.6	0.3	0.3	0.3	3.8	7.8
	489.7	139.2	170.3	197.8	125.5	1,122.5	1,181.6
Expenses							
Operating cash expenses	249.4	71.0	106.0	118.1	79.6	624.1	470.0
Refinery and transportation	2.4	0.8	0.8	0.9	0.8	5.7	5.9
Other taxes	5.4	1.4	0.2	0.8	0.8	8.6	15.8
Mining tax	26.3	8.1	9.4	10.8	7.0	61.6	69.6
Deferred stripping costs	–	26.7	–	0.9	24.0	51.6	59.5
Depreciation and amortisation	74.5	22.8	38.1	76.6	10.9	222.9	210.5
Impairment of ore stockpiles	6.2	4.4	(0.7)	1.4	0.2	11.5	29.7
Operating expenses	364.2	135.2	153.8	209.5	123.3	986.0	861.0
Result of precious metals operations before exceptional items	125.5	4.0	16.5	(11.7)	2.2	136.5	320.6
Segment EBITDA before exceptional items	206.2	31.2	53.9	66.3	13.3	370.9	560.8
Physical volume of gold sold, oz	316,883	91,038	112,995	130,561	84,867	736,344	703,109
Cash costs							
Operating cash expenses	249.4	71.0	106.0	118.1	79.6	624.1	470.0
Refinery and transportation	2.4	0.8	0.8	0.9	0.8	5.7	5.9
Other taxes	5.4	1.4	0.2	0.8	0.8	8.6	15.8
Mining tax	26.3	8.1	9.4	10.8	7.0	61.6	69.6
Deferred stripping costs	–	26.7	–	0.9	24.0	51.6	59.5
Operating cash costs	283.5	108.0	116.4	131.5	112.2	751.6	620.8
Deduct: co-product revenue	(2.3)	(0.6)	(0.3)	(0.3)	(0.3)	(3.8)	(7.8)
Total cash costs	281.2	107.4	116.1	131.2	111.9	747.8	613.0
Total cash costs per oz for hard-rock mines, US$	887	1,180	1,027	1,006	–	976	805
Total cash costs per oz for alluvial operations, US$	–	–	–	–	1,319	1,319	1,314
Total average cash costs per oz, US$	–	–	–	–	–	1,016	875

As announced in December 2013, recent exploration activities resulted in a significant increase in the Group's mineral resources. This increase, estimated in accordance with the internally-used Russian GKZ Classification System, was approximately 5.7Moz of non-refractory and 7.2Moz of refractory resources.

The Group's accounting policy is to depreciate mining assets using units of production ('UOP') method based on the volume of ore reserves. In December 2013, a significant portion of the newly discovered reserves and resources have been scheduled for processing in the Group's latest life of mine production plans as these resources are expected to be classified as JORC reserves or resources before they are processed. Following this inclusion, going forward, the Group intends to amend its methodology for determining ore reserve estimates for calculating UOP depreciation to include, in addition to JORC reserves, resources estimated in accordance with both JORC and the internally used Russian Classification System, but only to the extent these are scheduled to be mined under the Group's life of mine plans. As a consequence of the above and significant impairments recorded in 2013, the Group expects the depreciation charges to significantly reduce going forward.

Central administration expenses
The Group has corporate offices in London, Moscow and Blagoveschensk which together represent the central administration function. Central administration expenses decreased by US$14.9 million from US$60.7 million in 2012 to US$45.8 million in 2013, primarily reflecting cost cutting measures undertaken by the Group.

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') for an investment by General Nice and Minmetals in new shares of IRC for up to approximately HK$1,845 million (approximately US$238 million) in aggregate.

During the Period, IRC allotted and issued 1,035,876,000 new shares to General Nice for approximately an aggregate of HK$1,005.7 million (equivalent to approximately, US$129.6 million). The Group's interest in the share capital of IRC was diluted from 63.13% as at 31 December 2012 to 48.7% as at 31 December 2013.

Subsequent to 31 December 2013, IRC allotted and issued a further 165,000,000 new shares to General Nice for HK$155.1 million (approximately US$20.0 million). Further details are set out in note 27 to the consolidated financial statements on pages 154 and 156 of this Annual Report.

Assuming total investment completion occurs, the Group's interest in the share capital of IRC Limited would be diluted from 48.7% as at 31 December 2013 (31 December 2012: 63.13%) to 40.49%. A pro-rata indemnity from General Nice in relation to the Company's guarantee under the ICBC Facility Agreement will be then implemented.

IRC continues to be classified as 'held for sale' and is presented as a discontinued operation.

This year IRC generated US$18.9 million of operating losses and recognised a US$28.9 million exceptional impairment, in aggregate, against its Kuranakh mining assets and Molybdenum exploration project.

The Group recorded a further US$151.6 million exceptional 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$0.78 as at 31 December 2013 which reflects the change in the market share price of IRC share.

Interest income and expense

	2013 US$ million	2012 Restated US$ million
Investment income	0.9	1.7

The Group earned US$0.9 million interest income on the cash deposits with banks.

	2013 US$ million	2012 Restated US$ million
Interest expense	94.2	83.6
Less interest capitalised	(19.3)	(10.9)
Other	0.4	0.5
Total	75.3	73.2

The interest expense increased by US$2.1 million from US$73.2 million in 2012 to US$75.3 million in 2013. Interest expense for the period was comprised of US$29.4 million effective interest on the Convertible Bonds and US$64.8 million interest on bank facilities. US$19.3 million of this interest expense was capitalised as part of mine development costs within property, plant and equipment (2012: US$10.9 million).

Other finance gains / (losses)

	2013 US$ million	2012 Restated US$ million
Gain on buy-back of Convertible Bonds	19.4	–
Fair value losses on derivative financial instruments [(a)]	–	(13.6)
Total	19.4	(13.6)

(a) Including US$12.4 million fair value loss on gold option contracts traded by the Group in 2012.

Taxation

	2013 US$ million	2012 Restated US$ million
Tax (credit) / charge	(8.9)	39.1

The Group is subject to corporation tax under the UK, Russia and Cyprus tax legislation. The average statutory tax rate for 2013 was 23.25% in the UK and 20% in Russia.

This period tax credit arises primarily in relation to the Group's precious metals operations and is predominantly represented by deferred tax driven by the impact of impairment charges.

This period, the Group made corporation tax payments in aggregate of US$39.7 million in Russia (2012: corporation tax payments in aggregate of US$66.4 million in Russia).

Earnings per share

	2013	2012 Restated
Loss for the period from continuing operations attributable to equity holders of Petropavlovsk PLC	US$509.0 million	US$0.6 million
Weighted average number of Ordinary Shares	196,415,932	196,296,373
Basic loss per ordinary share from continuing operations	US$2.59	US$0.00

Basic loss per share for 2013 was US$2.59 compared to US$0.00 per share for 2012. The key factor affecting the basic loss per share was the increase of net loss for the period attributable to equity holders of Petropavlovsk PLC from US$0.6 million for 2012 to US$509.0 million for 2013.

The total number of Ordinary Shares in issue as at 31 December 2013 was 197,638,425 (31 December 2012: 187,860,093).

On 26 July 2013, the Company issued 9,778,332 ordinary shares to eligible shareholders in respect of their entitlement to receive one new Ordinary Share for every 19.21 Ordinary Shares held on the Register at the close of business on 28 June 2013.

Financial position and cash flows

	31 December 2013 US$ million	31 December 2012 US$ million
Cash and cash equivalents	170.6	159.2
Loans	(818.7)	(870.0)
Convertible bonds [(a)]	(300.3)	(352.5)
Net Debt	(948.4)	(1,063.3)

(a) US$310.5million Convertible Bonds at amortised cost (2012: US$380million)

	2013 US$ million	2012 US$ million
Net cash from operating activities		
Continuing operations	292.1	272.8
Discontinued operations	(10.5)	(0.9)
	281.6	271.9
Net cash used in investing activities		
Continuing operations	(182.2)	(471.7)
Discontinued operations	(110.4)	(135.6)
	(292.6)	(607.3)
Net cash from financing activities		
Continuing operations	(102.3)	183.4
Discontinued operations	196.2	121.0
Intra- group loan to discontinued operations	10.0	(10.0)
	103.9	294.4

Key movements in cash and net debt from continuing operations

	Cash US$ million	Debt US$ million	Net debt US$ million
As at 1 January 2013	159.2	(1,222.5)	(1,063.3)
Net cash generated by operating activities before working capital changes	285.0	–	
Decrease in working capital	125.9	–	
Income tax paid	(39.7)	–	
Capital expenditure on Gold Division projects and in-house service companies	(190.0)	–	
Exploration expenditure on Gold Division projects	(46.9)	–	
Amounts repaid under bank facilities, net	(49.5)	49.5	
Re-purchase of Convertible Bonds	(47.0)	66.4	
Interest accrued	–	(94.2)	
Interest paid	(79.1)	79.1	
Proceeds from disposal of subsidiaries	49.2	–	
Dividends paid	(5.8)	–	
Other	9.3	2.7	
As at 31 December 2013	170.6	(1,119.0)	(948.4)

The decrease in working capital reflects the efforts undertaken by the Group to optimise the working capital structure, including:

- partial processing of low-grade ore stockpiles at Pioneer which contributed US$58.3 million to the aggregate US$53.3 million decrease in ore stockpiles;
- US$12.5 million decrease in capitalised deferred stripping costs primarily due to amortisation of prospective stripping undertaken at Pokrovskiy in prior periods in line with this Period's mining activity which was partially offset by the increase in capitalised prospective stripping at Pioneer and Albyn in the current period; and
- US$8.6 million decrease in stores and spares.

As at 31 December 2013 there were no undrawn facilities.

Capital expenditure

The Group spent an aggregate of US$236.9 million on its gold projects compared to US$478.7 million invested in 2012. The key areas of focus this year were on the further development of POX, completion of Malomir (including flotation line), Albyn and Pioneer and on-going exploration related to the areas adjacent to the ore bodies of the main mining operations.

	Exploration expenditure US$ million	Development expenditure and other CAPEX US$ million	Total US$ million
POX	–	70.6	70.6
Pokrovskiy and Pioneer	18.4	32.0	50.4
Malomir	6.1	28.6	34.7
Albyn	16.5	36.6	53.1
Vysokoye	0.4	0.5	0.9
Alluvial operations	2.4	4.4	6.8
Upgrade of in-house service companies	–	12.5	12.5
Other	3.1	4.8	7.9
Total invested in Gold Division	46.9	190.0	236.9

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 2013	31 December 2012
GB Pounds Sterling (GBP: US$)	0.60	0.62
Russian Rouble (RUR: US$)	32.73	30.37

The Group recognised foreign exchange losses of US$5.8 million in 2013 (2012: foreign exchange gains of US$6.4 million) arising primarily on Russian Rouble denominated net monetary assets and GB Pounds Sterling denominated net monetary liabilities.

Going concern

As described in the Chairman's statement on page 04 of this Annual Report, following the significant decline in the gold price over the year and notwithstanding subsequent revision of the Group's plans, in the absence of refinancing the Group's forecasts show breaches of certain covenants in its banking facilities at 31 December 2014. In addition the US$310.5 million outstanding Convertible Bonds are due for repayment in February 2015 and the Group does not currently have sufficient committed facilities or available funds to refinance this debt.

As explained on page 05 of this Annual Report, the Group has developed a refinancing plan which includes negotiating with the Group's senior lenders and ICBC (on relaxation of the covenants in its banking facilities) and refinancing its Convertible Bonds. Based on negotiations conducted to date, the Directors have a reasonable expectation that the Group will receive sufficient relaxation of covenants in its banking facilities and refinance its Convertible Bonds maturing in February 2015.

The Directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the refinancing will be concluded successfully and the Group will therefore have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2013 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Andrey Maruta
Chief Financial Officer

This Strategic Report, as set out on pages 02 to 69, has been reviewed and approved by the Board and signed on its behalf by

Peter Hambro
Chairman

28 April 2014

Governance

In this section

Board of Directors

Mr Peter Hambro
Chairman
Mr Hambro is one of the co-founders of the Company and has been Chairman of the Group since its formation in 1994.

Experience: Mr Hambro started his career with his family bank and became joint managing Director of Smith St. Aubyn Holdings Ltd before joining the Mocatta Group, the world's largest bullion traders, as Deputy Managing Director of Mocatta & Goldsmid Limited.

External Appointments: Non-executive chairman of Sundeala Limited, Peter Hambro Limited and Tidal Transit Limited, all of which are family companies and he is a partner in Durrington Farm Partnership.

Committee membership: Chairman of the Nomination, Executive and Anti-Bribery Committees.

Mr Sergey Ermolenko
Chief Executive Officer
One of the five founding members of the Company. Mr Ermolenko was appointed Chief Executive Officer in December 2011.

Experience: Mr Ermolenko has held senior 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.

External Appointments: None.

Committee membership: Mr Ermolenko is a member of the Executive and the Anti-Bribery Committees.

Mr Andrey Maruta
Chief Financial Officer
Mr Maruta was appointed to the Board as Finance Director – Russia in January 2011, and promoted to the position of Chief Financial Officer in April 2012.

Experience: 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.

External Appointments: None.

Committee membership: Mr Maruta is a member of the Executive and Strategic Committees.

Field Marshal the Lord Guthrie of Craigiebank
Non-Executive Director
Field Marshal the Lord Guthrie of Craigiebank GCB LVO OBE DL was appointed to the Board in January 2008.

Experience: Lord Guthrie was formerly a director of NM Rothschild & Sons Limited, Chief of the Defence Staff and the Principal Military Advisor to two Prime Ministers and three Secretaries of State for Defence

External Appointments: 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 is a director of Colt Defense LLC and a non-executive director of Gulf Keystone Petroleum Ltd.

Committee membership: Lord Guthrie is Chairman of the Risk Committee and a member of the HSE and Remuneration Committees.

Dr David Humphreys
Non-Executive Director
Dr David Humphreys was appointed to the Board in August 2011.

Experience: 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 Norlisk 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.

External Appointments: Principal at DaiEcon Advisors, a strategy consultancy for the mining industry.

Committee membership: Dr Humphreys is a member of the Risk, HSE and Remuneration Committees.

Sir Roderic Lyne
Non-Executive Director
Sir Roderic Lyne was appointed to the Board in 2009 upon the Company's merger with Aricom plc.

Experience: Sir Roderic Lyne was previously a non-executive director of Aricom plc, a position he had held since 2006. Sir Roderic served as British Ambassador to Russia from January 2000 until August 2004.

External Appointments: Vice-chairman of the Council of the Royal Institute of International Affairs (Chatham House), a member of the Committee of the Iraq Inquiry and until July 2013 Chairman of the Board of Governors of Kingston University. In addition, Sir Roderic was appointed as a non-executive director of JP Morgan Bank International LLC in 2013.

Committee membership: Sir Roderic is Chairman of the Company's Remuneration and HSE Committees and a member of the Risk 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.

Experience: Dr Birch 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. Dr Birch holds a PhD in Mining Geology from Imperial College, London.

External Appointments: Non-executive director of Hochschild Mining plc and of ETF Securities, an asset management company, and vice-chairman of Rothamsted Research.

Committee membership: Dr Birch is a member of the Audit, Nomination and Risk Committees.

Mr Dmitry Chekashkin
Chief Operating Officer

Mr Chekashkin was appointed as a Director of the Company and as Chief Operating Officer in May 2013.

Experience: Prior to Mr Chekashkin's appointment as a Director, he held the position of Group Head of Precious Metals. Mr Chekashkin is a qualified engineer and worked as Deputy General Director of Finance for two leading gold mining enterprises in the Russian Far East before joining the Group in 2003.

External Appointments: None.

Committee membership: Mr Chekashkin is a member of the Executive and Strategic Committees.

Sir Malcolm Field
Non-Executive Director

Sir Malcolm Field was appointed to the Board in 2009 upon the Company's merger with Aricom plc.

Experience: Sir Malcolm Field was previously a non-executive director of Aricom plc, a position he had held since 2003. 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.

External Appointments: Non-executive director of Hochschild Mining plc and a non-executive director of Odgers Berndtson.

Committee membership: Sir Malcolm is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Mr Charles McVeigh III
Non-Executive Director

Mr McVeigh was appointed as a Non-Executive Director in 2009.

Experience: Mr McVeigh was co-chairman of Citigroup's European Investment Bank and served on the board 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.

External Appointments: 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.

Committee membership: Mr McVeigh is a member of the Audit and Nomination Committees.

Dr Alfiya (Alya) Samokhvalova
Strategic Director

Dr Samokhvalova was appointed to the Board as Strategic Director in January 2011.

Experience: In addition to her role as Strategic Director, Dr Samokhvalova is Group Head of External Communications, a position she has held since 2002.

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.

External Appointments: Non-executive director of the Russo-British Chamber of Commerce.

Committee membership: Dr Samokhvalova is Chairman of the Strategic Committee and a member of the HSE, Executive and Anti-Bribery Committees.

Mr Martin Smith
Deputy Chief Executive

Mr Smith was appointed as Technical Director in January 2011 and as Deputy Chief Executive in December 2011.

Experience: Mr Smith 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.

External Appointments: None.

Committee membership: Mr Smith is Chairman of the Technical Committee and a member of the Risk, HSE and Executive Committees.

Corporate Governance Report

Dear Shareholder
In my Chairman's statement I commented on the operational performance of the Group during 2013 and the challenges encountered by the Company during the year, specifically the volatility of the gold price during this period and the weeks of exceptional rainfall in the Amur Region, which resulted in the worst flooding in the region for 120 years. The Board is also monitoring the current political uncertainty arising from the recent events in Russia and Ukraine. A good corporate governance framework is essential, particularly in times of challenge, to ensure that the Board acts responsibly and with accountability at all times with consideration for all of its stakeholders.

Compliance Statement
We, as a Board, choose to maintain the highest standards of corporate governance as the Board believes these should help to facilitate the success of the Company and sustain this over time. However, corporate governance is not a 'science' and each company is unique, having to adapt to its own specific issues and challenges. Thus whilst endeavoring to comply fully with the UK Corporate Governance Code 2012 published by the Financial Reporting Council (the 'Code'), the Board welcomes the underlying 'comply and explain' principle of the Code. (The Code is available for review on the financial Council's website www.frc.org.uk/our-work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx). During the year under review the Company complied with the Code, with one exception, namely the manner in which the 2013 Board evaluation was undertaken. However before explaining the Board's position on this issue, I would like to draw your attention to one further matter.

Independence of Directors
The Board reviews non-executive director independence on an annual basis and takes into account the individual's professional characteristics, their behaviour at Board meetings and their contribution to unbiased and independent debate.

The Board is aware that, for some investors, length of non-executives directors' service beyond nine years will prejudice their independence. Sir Malcolm Field has served on the Board of Petropavlovsk since 2009 following the merger of the Company with Aricom plc. Sir Malcolm was previously a director of Aricom, having been appointed in December 2003, and hence he has served on the board of these companies for a combined period of 10 years.

However Sir Malcolm continues to offer a regular and substantive challenge to the Executive Directors on their strategy for and management of the business in his role as Non-Executive Director, such that the Board continues to regard him as independent. His continuity of service has been, and continues to be, of considerable benefit to the Company, particularly throughout the challenges of recent months and through the present period of refinancing. His in-depth understanding of the Company is highly beneficial to the Board and his stewardship and intellectual challenge as Chairman of the Audit Committee have been invaluable.

Shareholders may also wish to note that I was not considered 'independent' under the terms of the Code at the date of my appointment as Chairman 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. Further details of our respective roles are provided on page 75 of this Annual Report.

Board composition
Following careful consideration, the Board has determined that all of the current Non-Executive Directors are independent and free from any relationship or circumstance that could affect or appear to affect their independent judgement. The Board currently consists of six independent Non-Executive Directors, five Executive Directors and myself as Chairman. Dr Pavel Maslovskiy, the Company's former longstanding Chief Executive and one of its founder members continues to provide valued advice to the Company as its Honorary President, for which I and the Board remain grateful.

The Board intends to conduct a review of the composition and structure of the Board during 2014, the outcome of which will be notified as appropriate.

Board evaluation
I stated in the 2012 Annual Report that the Board intended to undertake its 2013 Board evaluation using an external assessor, in accordance with the requirement of Code Provision B.6.2. However in light of the Group's extensive cost-cutting programme, and the Executive's and Board's focus on critical operational and refinancing issues, such an external assessment was deemed inappropriate for the 2013 Board evaluation. This decision was taken after careful deliberation by the Board; partially due to the cost involved, but most importantly to the time such an assessment would require of each of the Directors to ensure that it was undertaken rigorously and in the manner that our Shareholders would, and should, expect. Given that the Company is now a constituent of the FTSE Small Cap Index, and has been since 12 June 2013, such an external evaluation is not currently required under the Code. However, the Board notes the value that an external assessment could bring to the Board and will consider this matter further in 2014, at the appropriate time. During 2013, the Board evaluation was conducted internally, with the process led on behalf of the Board by Dr Graham Birch, Senior Non-Executive Director, further details of the evaluation can be found on page 76 of this Annual Report.

Corporate Governance Framework
The following sections of this report detail the work and operation of the Board and the corporate governance framework within which we operate, including further reporting required under the Code, the UK Listing Rules and the Disclosure & Transparency Rules, all of which the Company is subject to. I hope that you will find this informative.

Annual General Meeting
All of the Directors intend to be present at the Company's Annual General Meeting to be held on 17 June 2014 and I and my colleagues hope that you can attend and look forward to answering your questions.

Peter Hambro
Chairman
28 April 2014

Corporate governance framework

1. The Board

1.1. The role of the Board
The Board is responsible to Shareholders for the success of the Company. The strategy, set by the Board and described in the Strategic Report, is to generate responsible and sustainable growth via the investment in new processing technologies and innovations and the geological exploration of new areas in order to produce steady cash flows for the benefit of all stakeholders. The Board's role is to ensure that the Company follows this strategy and that a financial and operational structure is in place to enable the Group to meet its goals.

The Board has adopted a formal schedule of matters reserved for the Board's decision a copy of which is available on the Company's website or can be obtained from the Company Secretary. These matters include responsibility for the determination and monitoring of the Company's strategic aims, budgets, major items of capital expenditure and senior appointments.

1.2. The Board of Directors
The names of the Directors serving at the date of this report and their biographical details are set out on pages 72 and 73. All Directors served throughout the year under review, save as noted below:

Dmitry Chekashkin – appointed as a Director and Chief Operating Officer on 13 May 2013.

Rachel English – resigned as a Non-Executive Director on 24 October 2013.

1.3. Board roles
1.3.1. The Chairman, The Chief Executive Officer and the Deputy Chief Executive
The division of responsibilities between the Chairman, the Chief Executive Officer and the Deputy Chief Executive is set out in writing and is summarised below:

Chairman
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.

Chief Executive Officer
to manage the day-to-day operations of the Group in Russia and ensure that all operations are consistent with the policies developed by the Board of Directors and are carried out in such a way that meet production, financial and legal requirements.

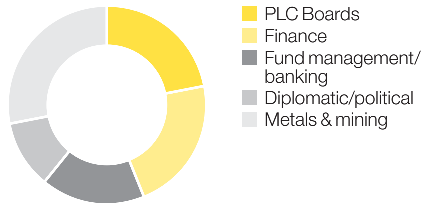
Deputy Chief Executive
to support the CEO in the development and implementation of the Group's strategic plans and policies, serve as an external representative of the Group, provide technical management and act as the focal point for communication between Russia and London.

1.3.2. Non-Executive Directors
The Non-Executive Directors are responsible for bringing independent and objective scrutiny to all matters before the Board and its Committees, using their substantial and wide ranging experience. The Non-Executive Directors meet periodically with the Chairman without the Executives being present.

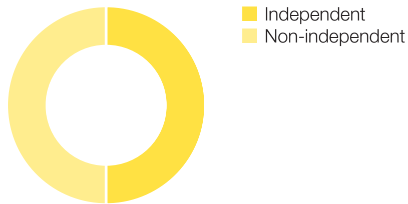
1.3.3. Senior Independent Director
Dr Graham Birch is the Company's Senior Independent Director. Dr Birch provides an independent access point to the Company's institutional Shareholders to whom he is well known. In this capacity, Dr Birch also held separate meetings during the year with the Non-Executive Directors without the Chairman or the Executive Directors being present.

The Directors
Business experience, independence & country of permanent residence
The following graphs illustrate the collective business experience of the Directors outside that acquired at Petropavlovsk, Director independence as determined by the Board, country of primary residence and nationality.

Business experience

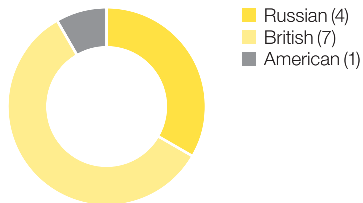


Independence



Country of primary residence

Nationality



2. Effectiveness and accountability of the Board

2.1. Board activities during the year

The Board met on seven scheduled occasions during the year. An additional Board meeting was convened immediately following the decline in the gold price in April to review the Group's strategy. As a result, the cost-cutting programme was implemented and the Board commenced its business plan review with the resultant decision to slow down the pace of development of the POX project, the Group having identified additional new non-refractory ore. Further Board meetings were held to deal with matters of a routine or administrative nature. The annual dedicated strategy meeting was held in December during which the Board reviewed and approved the Group's new long-term mining plan.

In addition to the standard agenda items, the Board considered the following matters during the year:

- The issue of new shares by IRC to two new investors, a transaction which was approved by Shareholders in March 2013;
- The Group's hedging arrangements;
- A new business plan to extend the development period of the POX Hub and the related flotation plant at Malomir and the implementation of a comprehensive cost-cutting programme to reduce annual operating and central administration costs;
- The disposal of the Group's entire interest of 76.62% of the issued shares in OJSC Berelekh for a total consideration of US$25 million which was approved by Shareholders in November 2013;
- The Group's long-term strategic and development plans; and
- Refinancing matters.

2.2. Board committees

The Board is responsible for the Group's system of corporate governance and is ultimately responsible 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. Please see section 3 on pages 77 to 79 for further details of these Committees.

2.3. Director's induction and professional development, information flow & professional advice

2.3.1. Induction and professional development

Each Director is provided with a tailored induction programme upon appointment and they are expected to 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 Board considers that visits to the Group's gold mining operations are an important part of a Director's induction and their understanding of the size and scale of the Group's operations – all of the Directors have now visited the Group's mining operations at least once.

The Non-Executive Directors are invited at the Company's expense to attend conferences and seminars on the mining industry. The Directors receive briefings on regulatory and corporate governance issues from the Company Secretary and the Company's advisors.

2.3.2. Information flow

Prior to each Board meeting the Directors receive detailed information on operational and financial performance, activities of the Board Committees, investor relations and projects that are being progressed by the Executive. The Board receives presentations and verbal updates from the Executive Directors and members of the Executive Committee at Board meetings as appropriate. All Directors are encouraged to make further enquiries as they feel appropriate, of the Executive Directors or management and the Non-Executive Directors are expected to provide objective and constructive challenge.

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.

2.3.3. Professional advice

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.

2.4. Performance evaluation

As detailed in the Chairman's introduction the evaluation of the Board and its Committees has been undertaken internally using a confidential questionnaire with Directors identifying areas for improvement. The process was again led by Dr Graham Birch, as Senior Independent Director. The questionnaire covered issues such as composition and effectiveness of the Board; risk management and governance; the effectiveness of the Board Committees and an appraisal of each of the individual Directors. The responses of the Directors were collated into a report by the Company Secretary. The outcome of the evaluation was discussed by the Chairman and Dr Birch who has formally reported to the Board.

Feedback from the evaluation highlighted the improvement of the quality of operational discussions at Board meetings following the appointment of Mr Chekashkin and continued improvement in the quality and flow of information to the Non-Executive Directors with specific reference to the higher quality of financial information. Areas identified for action included a review of the composition of the Board, and whilst information flows had improved, some areas were identified for further improvement. Following the performance evaluation the Board intends to conduct a review of the composition and structure of the Board. Although recognising these issues the evaluation concluded that the Board and its Committees are operating effectively.

2.5. Annual re-election of directors
In accordance with the recommendations of the Code, all of the Directors will be offering themselves for re-election at the AGM on 17 June 2014. 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 accompanying the Notice of the Annual General Meeting.

2.6. Investor engagement
The Company maintains an active dialogue with all of its Shareholders as well as potential shareholders. The Investor Relations department manages the interaction with these audiences and ensures that comprehensive information is available to all Shareholders. Regular presentations or conference calls take place at the time of interim and final results as well as during the rest of the year.

During the year there were regular presentations to, and meetings with, institutional investors in the UK, Russia and Europe to communicate the Group's strategy and operational performance and educate investors on the areas in which the Group operates and new industry developments. Copies of all presentations made on these 'roadshows' or to institutional shareholders are available on the Company's website at www.petropavlovsk.net – a hard copy can also be obtained by contacting the Group's Investor Relations department in London. The website is regularly updated and provides the latest news and historical financial information, details about forthcoming events for Shareholders and analysts, and other information regarding the Group.

The Company values individual Shareholders and the Board encourages 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 17 June 2014. 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.

In addition to the 2013 Annual General Meeting, the Company convened two General Meetings during the year, seeking Shareholder approval for (i) the issue of shares by IRC the Group's Hong Kong Listed subsidiary and (ii) the disposal of the Company's 76.62% interest in OJSC Berelekh. The Board welcomed the attendance of Shareholders at these meetings and was pleased to answer questions and to address any issues raised. The Chairman ensures that any significant concerns raised by a Shareholder in relation to the Company are communicated to the Board. Feedback from meetings held between the Executive Team and institutional Shareholders is also communicated to the Board.

3. Board committees

A diagram detailing the corporate governance framework established by the Board including the principal role of each Board Committee is shown on page 78.

3.1. Health, Safety and Environmental Committee ('HSE Committee')
During the year the Committee comprised Sir Roderic Lyne as Chairman, Lord Guthrie, Dr David Humphreys, Mr Martin Smith and Dr Alya Samokhvalova.

3.2. Anti-Bribery Committee
The Board has adopted a zero-tolerance approach to corruption and bribery issues. The Anti-Bribery Committee comprises Mr Peter Hambro as Chairman, three Executive Directors, two members of the Executive Committee and the Company Secretary. The Company's Code of Business Conduct and Ethics approved by the Anti-Bribery Committee is available on the Company's website in both English and Russian.

The Company has adopted policies and procedures in order to comply with the Bribery Act 2010 and provides appropriate training for employees in both Russia and London. The Anti-Bribery Committee reports to the Board at each meeting.

3.3. The Executive Committee
The Executive Committee comprises the Company Chairman, the five Executive Directors and the following four senior Executives: Mr Valery Alexseev, Group Head of Construction and Engineering; Mr Alexei Maslovskiy, Business Development Manager; Mrs Anna-Karolina Subczynska, Group Head of Legal Affairs; and Mr Andrei Tarasov, Deputy General Director of MC Petropavlovsk.

3.4. Strategic and Technical Committees
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. Both Committees report to the Executive Committee, with reports on their work being made to the Board by the relevant Committee Chairman at each Board meeting.

The Board and its Committees

The Board

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.

Board Committees and how they support the Board

The Board has established a number of Committees and provides sufficient resources to enable them to undertake their duties.

Audit Committee

- Reviews Auditor's Report on the half and full year audit.
- Reviews appropriateness of accounting standards.
- Oversees relationships with external auditors.
- Overseas external audit process.
- Reviews the financial risks.
- Reviews internal audit plans.

The Report of the Audit Committee is on pages 81 to 86 of this Report.

Remuneration Committee

- Determines and agrees with the Board the format and broad policy for the remuneration of the Company Chairman, Executive Directors, members of the Executive Committee and the Company Secretary.
- Reviews the on-going appropriateness of the policy.
- Ensures that the Company maintains contact with Shareholders regarding the Company's remuneration policy.

The Report of the Remuneration Committee is on pages 87 to 103 of this Report.

Nomination Committee

- Reviews structure, size and composition of the Board and its Committees and makes recommendations to the Board as appropriate.
- Considers succession planning issues for Directors and senior executives.
- Evaluates the skills and experience of the Board before any appointment is made to the Board.

The Report of the Nomination Committee is on page 80 of this Report.

Risk Committee

- Reviews the identification, evaluation and management of key risks.
- Assesses the effectiveness of related controls.
- Monitors the Group's internal control systems.

The Report of the Risk Committee is on pages 26 to 37 of this Report.

HSE Committee

- Reviews the Group's health, safety, environmental and community relations ('Sustainability') strategy.
- Evaluates the effectiveness of the Group's policies and systems for managing Sustainability issues and risks.
- Assesses the performance of the Group with regard to the impact of Sustainability decisions and actions.

Please see the Sustainability report on pages 18 to 25.

Anti-bribery Committee

- Responsible for the development of policies and procedures to comply with appropriate legislation including the Bribery Act 2010 and to meet the Company's zero tolerance approach to acts of bribery and corruption.
- To ensure communication of policies to relevant parties and training for all relevant employees.

Please see pages 20 and 77.

Executive Committee

- Responsible for the day to day management of the Company.
- Recommends strategy and direction to the Board. Acts as a conduit between management and the Board.

Please see page 77.

The Company Secretary acts as secretary to the Audit, Remuneration, Nomination, Risk, HSE, Anti-Bribery and Executive Committees.
All Committees are authorised to obtain legal or other professional advice as necessary and to secure the attendance of external advisers at their meetings.

Executive Committee

Strategic Committee

Responsible for evaluation of projects from a strategic perspective.
To formulate annual and long-term budgets and monitor performance against these.

Technical Committee

Responsible for evaluation of projects from a technical perspective.
To provide technical analysis of the Group's budgets, forecasts and investment plans.

Both Committees working together.

Board and Committee membership and attendance during the year

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 [a]	C	7/7	1/1	–	4	–	2	C	2/2	–	5	–	6
Sergey Ermolenko [a, b]	M	5/7	1/1	–	–	–	–	–	–	–	3	–	4
Graham Birch [c]	M	7/7	1/1	M	4/4	–	–	M	2/2	–		M	6/6
Dmitry Chekashkin [d]	M	6/7	1/1	–	1	–	–	–	–	–	1	–	2
Rachel English [c, e, g]	M	6/7	N/A	M/C	3/4	–	–	–	–	–	–	–	–
Sir Malcolm Field [c, f, g]	M	7/7	1/1	M/C	4/4	C/M	3/3	M	2/2	–	–	–	–
Lord Guthrie [c]	M	7/7	1/1	–	–	M	3/3	–	–	M	5/5	C	6/6
David Humphreys [c,h]	M	6/7	1/1	–	–	M	2/3	–	–	M	4/5	M	5/6
Sir Roderic Lyne [c,f]	M	7/7	1/1	–	–	M/C	3/3	–	–	C	5/5	M	6/6
Andrey Maruta [a]	M	7/7	1/1	–	4	–	–	–	–	–	–	–	6
Charles McVeigh [c]	M	7/7	1/1	M	4/4	–	–	M	2/2	–	–	–	–
Alya Samokhavlova [a]	M	7/7	1/1	–	–	–	–	–	–	M	5/5	–	6
Martin Smith [a]	M	7/7	1/1	–	–	–	–	–	–	M	5/5	M	6/6

Key: C= Chairman, M= Member

(a) Directors who are not members of the Audit, Remuneration, HSE and Risk Committees may attend meetings at the invitation of the Chairman of that Committee.

(b) Shareholders will be aware of the torrential rain in the Amur Region during 2013 which resulted in some of the worst flooding in the region in approximately 120 years. To mitigate the potential impact on production at Pokrovskiy and Pioneer, the worst affected mines, the Chief Executive Officer, with the agreement of the Board, remained at the Group's mining operations to manage the situation. As a result of Mr Ermolenko's management of this matter and his continued presence at the mines, the Group was able to achieve its revised 2013 production target. However as a result Mr Ermolenko was absent from two scheduled Board meetings. These meetings were attended by Mr Martin Smith, the Deputy Chief Executive, who works closely with Mr Ermolenko. Mr Smith reported to the Board on behalf of the Chief Executive Officer during the meetings which he was unable to attend, specifically in relation to the Group's operational performance.

(c) Director who the Board has determined to be independent.

(d) Appointed as a Director on 13 May 2013.

(e) Resigned as a Director on 24 October 2013.

(f) Sir Malcolm Field was Chairman of the Remuneration Committee until 11 June 2013. Sir Roderic Lyne was appointed as Chairman of the Remuneration Committee on 11 June 2013. Sir Malcolm Field remained as a member of the Remuneration Committee during the year.

(g) Sir Malcolm Field was Chairman of the Audit Committee until 11 June 2013. Ms Rachel English was appointed as Chairman of the Audit Committee on 11 June 2013. Following the resignation of Ms English as a Director of the Company and Audit Committee Chairman on 24 October 2013 it was agreed that Sir Malcolm Field should be re-appointed as Audit Committee Chairman until a suitable candidate was found for this position.

(h) Dr David Humphreys was unable to attend one Board meeting and one Remuneration, HSE and Risk Committee meeting during the year due to a previous overseas commitment.

Nomination Committee Report

Dear Shareholder
I continue to Chair the Nomination Committee, assisted by my fellow Directors, Dr Graham Birch, Sir Malcolm Field and Mr Charles McVeigh.

Board Changes and Composition
As part of our remit we considered succession planning issues for the Company which resulted in the recommendation of the appointment of Mr Dmitry Chekashkin to the Board. Dmitry, an experienced engineer and member of the Executive Committee had worked for the Group for 10 years, prior to his Board appointment. Following our recommendation, Dmitry was appointed by the Board as a Director and as the Group's Chief Operating Officer on 13 May 2013.

In October 2013, Ms Rachel English decided to resign from her position as a Non-Executive Director of the Company and as Audit Committee Chairman. This followed her decision to accept the appointment as a non-executive director of African Barrick Gold, a position which, whilst geographically suited to her other business interests, imposed additional time commitments. The Nomination Committee is leading the process on behalf of the Board, assisted by external consultants, to find a suitable replacement for recommendation to the Board. An announcement will be made as appropriate.

Diversity Statement
Although the Board is mindful of the continuing focus on the value of gender diversity, the Board has not set and does not intend to set, a specific target for the number of female members on the Board and will endeavour to appoint the best candidate available to us for any particular role, including the current vacancy.

The Nomination Committee and the Board are committed to providing equal opportunities for both current and prospective employees. We are proud that in 2007 the Group established the Pokrovskiy Mining College, which continues to provide specialist training to both men and women in more than 40 mining professions. Additional information is provided on page 21 of this Annual Report.

Peter Hambro
Chairman, Nomination Committee
28 April 2014

Additional activities during the year:

Further details of the work undertaken by the Nomination Committee during the year:

- Succession planning, resulting in the appointment of Mr Dmitry Chekashkin
- Evaluation of each of the Directors in respect of their re-election and subsequent recommendation to the Board
- Review of diversity policy for recommendation to the Board
- Approval of the 2012 Nomination Report

Gender Diversity of the Board, and Executive Committee (%)

Audit Committee Report

Dear Shareholder
As Chairman of the Audit Committee, I am pleased to introduce the first report of the Committee under the new 'enhanced' reporting requirements of the 2012 UK Corporate Governance Code.

2013 has been a challenging year for the Group with the significant fall in the gold price in April, and the subsequent ensuing volatility in the gold price. Management reacted immediately to the new gold price environment undertaking a review of capital and operational expenditure which concluded that (i) the Group should delay the start-up of the POX Hub and the Malomir flotation plant and (ii) the operating and administrative expenses should be reduced. The Group also undertook a successful hedging programme in 2013 which has mitigated, to some extent, the adverse impact of the gold price decline on the Group's profitability. The impact of the gold price decline has been central to the Committee's work in 2013 with particular focus on the valuation of the Group's assets including the impairment reviews undertaken by management and an ongoing review of the results of the cost cutting program.

Shareholders will note the 'emphasis of matter' contained within Deloitte LLP's audit opinion. This should, of course, be read in conjunction with the Chairman's Statement on pages 4 and 5 of this Annual Report regarding the refinancing plan. The Committee has played a pivotal role throughout this process, advising the Board on related going concern matters.

In addition the Committee's role continues to be to ensure that the Group's governance, financial risk management and financial reporting processes provide the requisite assurance framework.

This Report details the work undertaken by the Committee during the year to provide the requisite assurance to the Board that the Group maintains sound internal control systems, with a robust control framework, thus ensuring the integrity of its financial statements. The Committee is satisfied that the Board maintains satisfactory internal controls.

In addition and in accordance with the new reporting requirements, this report includes a description of the significant issues considered by the Committee and how they were addressed.

In accordance with the new governance requirements the Committee has assessed the Annual Report, on behalf of the Board, and has advised the Board that in the Committee's opinion the Annual Report taken as a whole is *'fair, balanced and understandable'*.

This year's Annual General Meeting of the Company will be held on 17 June 2014 during which I will be pleased to answer any questions about the work of the Committee.

Sir Malcolm Field
Audit Committee Chairman
28 April, 2014

Report of the Audit Committee

Governance processes
The members of the Audit Committee (the 'Committee') during the year were:

Sir Malcolm Field
Dr Graham Birch
Mr Charles McVeigh
Ms Rachel English (Resigned 24 October 2013)

Chairmanship of the Committee:
On 11 June 2013, as part of the Company's succession planning, Sir Malcolm Field stepped down as Chairman of the Committee and Ms Rachel English was appointed in his place. On 24 October 2013, Ms Rachel English decided to relinquish her directorship of the Company in order to accept a directorship of African Barrick Gold plc, given her other business interest in this geographic region. Sir Malcolm Field kindly agreed to act as Chairman of the Audit Committee following Ms English's resignation, thus ensuring appropriate continuity in this role until a permanent replacement is found. The Company has appointed an independent search consultancy to assist the Company in identifying a suitable candidate for the role of Audit Committee Chairman, with this process being led by the Nomination Committee on behalf of the Board.

Sir Malcolm Field is considered by the Company as having the requisite recent and relevant financial experience due to his past employment in finance or comparable experience in corporate activities, as is Mr Charles McVeigh. Dr Graham Birch's background in mining fund management and his PhD in Mining Geology enable him to bring a broad level of mining expertise to the Committee's deliberations.

As part of the process of working with the Board and to maximise effectiveness meetings of the Committee generally take place just prior to a Company Board meeting. Following each meeting the Committee Chairman will report 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.

Following the publication of the revised version of the UK Corporate Governance Code, which applies to financial years commencing on or after 1 October 2012 the Board requested that the Committee advise them on whether the Committee believes that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee's terms of reference have been amended to reflect this and a copy can be found on the Company's website at www.petropavlovsk.net.

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.

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. Under the new provisions on audit tendering, the Committee 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. Until a decision is made to tender the audit the Committee will continue to evaluate the performance of Deloitte, as the Company's external auditor each year.

Mr Douglas King who has been the Company's Audit Partner since 2009, following the Company's merger with Aricom plc and its listing on the Main Market of the London Stock Exchange will step down as Audit Partner following the 2013 year-end audit, having completed five years, he will be replaced by Mr Timothy Biggs. Mr Biggs has been a senior figure at Deloitte, Australia for 13 years and has recently been appointed as the leader of Deloitte's UK metals and mining sector.

At its four meetings during the year, the Committee focused on:

Financial Reporting
At its meeting in March 2013, the Committee reviewed the Annual Report and Accounts for the year-ended 31 December 2012 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. At its August meeting, the Committee reviewed the 2013 half year accounts prior to recommending them to the Board for approval. Particular areas of focus for the Committee at both of these meetings were:

- The carrying value and impairment testing of the Group's mining assets
- The measurement and valuation (and potential impairment) of inventory including:
  (i) Deferred stripping; and
  (ii) Stockpiles
- The valuation and impairment testing of the Group's exploration and evaluation assets
- The going concern basis for preparing the accounts
- Accounting for the dilution of the Group's interest in IRC.

In October, the Committee considered, amongst other matters, the 2013 audit plan presented by Deloitte and in December, the Committee received a report from Deloitte on the work conducted on the results for the first 9 months of the year. This included a report from Venmyn Deloitte ('Venmyn'), Deloitte's internal South African mining experts, who were appointed by Deloitte to assist them with certain aspects of the year-end audit. The additional assessment by the mining experts adds further rigor into the Group's year-end audit process providing valued assurance to the Committee.

The primary areas of judgement considered by the Committee in relation to the 2013 accounts, and how these were addressed, were:

Going concern
Under guidelines set out by the UK Financial Reporting Council the Board is required to consider whether the going concern basis is the appropriate basis of preparation for the financial statements, and furthermore, is required to include appropriate disclosure of any significant considerations or uncertainties relevant to the going concern assumption. In order to carry out this assessment, the Board considers the liquidity position of the Group for a period of not less than twelve months from the date of the signing of this Annual Report. The Group's going concern assessment is highly sensitive to the gold price, the success of its recent exploration activities and the successful implementation of the current cost cutting programme and its sustainability. The current going concern assumption has also been assessed on the basis that the refinancing plan, detailed in the Chairman's Statement on page 5, will be completed.

This year the Committee has addressed these issues by receiving reports prepared by management, including a working capital report outlining their assessment of the ability of the Group to continue as a going concern, subject to the success of the refinancing plan, and a process of challenging the appropriateness of the key assumptions used. The Committee is also fully briefed on discussions between the Board and the Company's advisors regarding the refinancing plan.

This is a prime source of focus for Deloitte who provided a detailed report on this issue to the Committee. The audit opinion, provided by Deloitte, and contained within this Report, includes an '*emphasis of matter*' noting that there is material uncertainty relating to going concern as the refinancing plan developed by the Directors will not be completed until after the date of this Annual Report.

The Committee has advised the Board that, given the Directors have a reasonable expectation that the refinancing plan detailed in the Chairman's Statement on page 5, will be concluded successfully and the Group will therefore have adequate resources to continue in operational existence for the foreseeable future, the going concern basis is the appropriate basis of preparation for the 2013 financial statements.

Carrying value of mining assets and assessment of impairments
The judgements in relation to the carrying value of the Group's mining assets and the potential impairment relate to the calculation of the value of the mining asset being tested for impairment. The value of these assets are particularly sensitive to the forecast long-term gold price and also to the success of the Group's cost-reduction programme and the ultimate success of POX. A favourable long term change in any of the key assumptions may require a reversal of any impairments charges taken in previous accounting periods. The Committee addresses these matters through receiving reports from management outlining the basis for the assumptions used. The long term mine models which form the basis of the long term mining plan, which is approved by the Board, are used by management to perform the impairment assessment. In addition, this area is a prime source of audit focus and accordingly Deloitte provide detailed reporting on this issue to the Committee. During the 2013 year end audit Deloitte engaged Venmyn, their mining experts, to assist Deloitte in their assessment of this issue.

Accounting for the dilution of the Group's interest in IRC

On 7 March 2013, Shareholders approved an approximately US$238 million investment in IRC Ltd, the Group's 63.13% Hong Kong Listed subsidiary by two new investors, General Nice and Minemetals Cheerglory (the 'Investors') (the 'Full Subscription'). The Full Subscription was due to complete by 31 December 2013, at which time the Group's shareholding would have reduced to the point that the Company would no longer have control over IRC and the Group's remaining associate interest in IRC would have been revalued to fair value as required under International Financial Reporting Standard 3: Business combinations.

However, as the Full Subscription did not complete by 31 December 2013, the Group held 49% of IRC shares at this date. In order to judge the impact on the Group's financial statements the Committee considered and challenged management's assessment of the following matters:

(i) That the Group still controlled IRC following the dilution of the Group's interest below 50% as at 31 December 2013, given that the Group was still the principal shareholder and would therefore have the ability to direct the relevant activities of IRC;

(ii) That IRC should continue to be classified as an asset held for sale, being the accounting treatment as at 31 December 2012 given that the Board remained confident that the Full Subscription would complete and in any event the Board was committed to the disposal of the Group's controlling interest in IRC even if the Full Subscription did not complete; and

(iii) That IRC should be disclosed in the Company's consolidated accounts as at 31 December 2013 as a discontinued operation as IRC has become a major line of business with a sustained contribution of over 10% of the Group revenue during the year.

Measurement and valuation of inventory

Stockpiles are valued at the lower of cost and net realisable value in accordance with International Financial Reporting Standard 2. The value of these assets is sensitive to the timing of the processing of the stockpiles, the forecast processing cost and the forecast gold price.

The evaluation of deferred stripping is complex and relies on numerous assumptions. The levels of gold in circuit are assessed through reconciliation between gold production, sales and recoveries.

The Committee addresses these matters through receiving reports from management outlining the basis for the assumptions used. In addition the impairment model for the existing stockpiles prepared by management is provided to and is subject to challenge by the Committee and by the external auditors.

As detailed above, Venmyn was appointed by Deloitte to assist them in their review of management's measurement and valuation of inventory during their audit of the Company's 2013 results. This included a visit to all of the mines and discussion by Venmyn with local management regarding their on-going stripping plans and understanding the Company's procedures for measuring gold-in-circuit balances based on production and sales. Details of Venmyn's report and the final assessment of Deloitte were provided to and discussed by Deloitte and management with the Committee.

Carrying value of Exploration and Evaluation (E&E) assets

The judgements in relation to the carrying value and potential impairment of the Group's E&E include an assessment of the prospectivity of the exploration activities, future plans for each licence and their strategic importance to the future of the Group. The Strategic Committee undertakes periodic detailed reviews of the exploration assets held by the Group and assesses them in different categories. Those assets that are considered as non-core projects which the Group has no intention of developing in the near future are subject to impairment. The Committee addresses the impairment testing of E&E assets by considering the exercise undertaken by the Strategic Committee which has been subject to an Executive Committee review and by asking questions of management. The impairment of E&E assets is another area of focus for the external auditors who report to the Committee in this respect.

Internal audit

The Company has an internal audit function and the Group Head of Internal Audit, who has a direct reporting line to the Chairman of the Committee, is invited to attend meetings of the Committee. Given the decline in the gold price during 2013, the consequent deferral of the POX project, the cost-cutting program and other related issues it was decided that it was not an appropriate time to recruit additional resource to this function, as was intended and detailed in the 2012 report of the Committee.

During the year the Committee received presentations by the Group Head of Internal Audit. These presentations were principally in relation to the reviews conducted during the year by the internal auditor including various audits relating to the management of working capital.

The 2014 internal audit plan, which has been approved by the Committee, is based on the risk assessment undertaken by the Risk Committee and the internal auditor during 2013 and includes audits of the Group's fixed assets and its procurement and supply processes. The internal audit plan has the support of key management and includes audits at the Group's mining operations and the Group's offices in both Moscow and Blagoveshchensk.

External Auditor
The Committee monitors the Group's policy on external audit which includes assessing the objectivity, independence and effectiveness of the Company's external auditors. During the year this included:

1. Reviewing Deloitte's fulfilment of the agreed audit plan for the year ended 31 December 2012, the quality of their audit findings and management's response;

2. Reviewing Deloitte's proposed audit fee for the 2013 interim review and year-end audit and after consideration recommending these to the Board for approval;

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 '2013 Audit Transparency Report' in respect of the year ended 31 May 2013. 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 during the year Committee members, the Chairman and the Chief Financial Officer undertook an evaluation of the external auditor to assess the effectiveness of Deloitte and of the external audit process itself. The evaluation covered a wide spectrum of issues including the calibre of the external audit firm, the quality processes of the firm, the audit team, scope and communications and governance and independence issues.

Feedback from the evaluation process confirmed that, in the opinion of the Committee and of the relevant Executive, Deloitte is effective as the Company's external auditor and in their audit process, with strong internal controls and processes and a professional and ethical relationship with both the Committee and with the Company's management. Sir Malcolm Field, as Audit Committee Chair, discussed the feedback of the evaluation process with Mr Douglas King, Audit Partner.

In addition the Committee meets separately on a regular basis with the auditors without management being present.

In 2012, the Committee 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. Fees of US$211,000 were paid to Deloitte in 2013 in respect of this transaction in addition to fees paid in 2012.

In 2013, the Committee approved the appointment of Deloitte as reporting accountants on the proposed disposal of 76.62 per cent of the issued shares in OJSC Berelekh. The proposed transaction was announced on 17 September 2013 and following the issue of a Related Party Circular to Shareholders on 28 October 2013, was approved by Shareholders at a general meeting held on 14 November 2013. The fees payable to Deloitte in this respect during 2013 were US$40,750.

Deloitte's appointment as reporting accountants for both of the above transactions 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 of Deloitte on the basis that it was in accordance with the Company's policy and that, given their detailed knowledge of the Group, including IRC, of whom they are also the external auditor, Deloitte would be the most appropriate firm to:

(i) Prepare the requisite working capital report for the IRC transaction within the time available and for a reasonable fee; and

(ii) Undertake the work required to support the Board's statement on the 'no significant change' statement required to be included in the Related Party Circular, within a limited timescale.

This work is typically performed by the external auditor. Accordingly, in the opinion of the Committee the independence and objectivity of Deloitte as external auditor to the Company has not been impaired by their work in this respect.

A breakdown of non-audit fees paid in 2013 is set out in note 7 to the consolidated financial statements on page 141 of this Report.

The total non-audit fees paid to Deloitte in 2013, including fees paid in respect of the interim reviews were approximately 40% of the annual audit fees. The fees paid to Deloitte by the Group represented less than 0.1% of total fees paid to Deloitte LLP. Accordingly they are not considered to be significant and to pose any threat to Deloitte's independence as auditor.

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 2013 and up to the date of this report. The Committee has also considered and reviewed the Group's financial risks and the mitigating actions 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 Committee has reviewed the 2013 Reports as a whole, and has confirmed to the Board that, in the Committee's opinion, '*it is fair, balanced and reasonable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy*'.

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 Committee.

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 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 and reporting its findings and recommendations to the Risk Committee. The Report of the Risk Committee, which has been reviewed by the Committee, summaries the risk management framework together with details of the principal risks of the Group and is on pages 26 to 37 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.

Annual statement from the chairman of the remuneration committee (the 'Committee')

Remuneration Highlights
'Aligning Directors' interests with those of Shareholders in a challenging year':

- No salary increases for Chairman/Executive Directors/Executive Committee in 2013 with the exception of a c.4% increase for the Chief Financial Officer;
- Base salaries frozen in 2014;
- No change in Chairman's salary which was voluntarily reduced from £655,000 to £555,000 on 1 June 2012;
- No increase in NED fees for second year in succession; Dr Graham Birch, senior Non-Executive Director took a 15% voluntary reduction in fees effective from 1 June 2013;
- Chairman/Executive Directors waived their right to receive a bonus in 2013;
- No Long-Term Incentive Award granted during 2013, the second year in succession; and
- Review of remuneration and consultation with Shareholders proposed for 2014/2015, subject to successful Group refinancing.

Dear Shareholder

Introduction
I am pleased to present this, the first Directors' Remuneration Report, since my appointment as Committee Chairman in June 2013 in succession to Sir Malcolm Field. Sir Malcolm has remained on the Committee to ensure continuity. His experience and expertise have made an invaluable contribution to the Committee's work.

As the Annual Report records in more detail elsewhere, 2013 was a challenging year for the Group with the volatility in the gold price and the worst flooding in the Far East Amur Region for over 120 years. The Board responded quickly to the gold price decline in April 2013, entering into additional finance arrangements to sell gold forward and undertaking a strategic business review. As a result, and due to the Group's recent exploration success, the Board announced its intention to i) defer the completion of the POX hub and ii) implement a comprehensive cost-cutting programme. This has resulted in reduction of net debt to US$948m as at 31 December 2013 and improved cashflow. Despite the flooding at our mines during the latter part of 2013, the Group achieved its revised production target.

Actions taken in 2013
It is against this backdrop, and especially of the need to keep a strict control on costs, that the Committee considered remuneration during 2013. The Committee is very conscious of the impact on our Shareholders of the Company's share price decline together with the current suspension of dividend payments. Accordingly, the following decisions were taken:

* The Chairman and the Executive Directors voluntarily waived their right to receive a bonus opportunity for 2013. The Committee fully supported their decision, which has set an example to the Group.

* The Committee determined that:
  a) no grant should be made during the year under the Company's Long-Term Incentive Plan; and
  b) the base salaries of the Chairman and the Executive Directors should remain frozen in 2014. This means that, with the exception of the Chief Financial Officer, no increase in salary was paid to the Group's most senior employees for the second year in succession.

2014 and beyond
As detailed in the Chairman's Statement the Board has developed a refinancing plan which includes negotiating with the Group's senior lenders and ICBC on relaxation of the covenants in its banking facilities and refinancing its Convertible Bonds. Subject to the satisfactory conclusion of this matter, the Committee intends to undertake a full review of the Company's remuneration policy within the new framework to ensure that appropriate arrangements are in place to incentivise our Executive Team to deliver the Group's strategy. In considering any adjustments to the policy, the Committee will wish to ensure that the interests of the Executive Team continue to be aligned with those of our Shareholders. The Committee would therefore propose to consult the Company's major Shareholders on any revisions to the policy, before putting the policy to Shareholders for approval at the Company's 2015 AGM.

2014 Annual General Meeting
As required by law, at the 2014 AGM we are seeking Shareholders' approval of our Directors' remuneration policy, as set out in the next section of this report. This policy will apply from the date of the 2014 AGM until the 2015 AGM, at which time the revised policy will be proposed to Shareholders for approval.

Current remuneration policy remains as described in last year's report. One variation was made to the application of the policy in 2013: due to the exceptional circumstances, Executive Directors waived their 2013 bonus opportunity and the Committee agreed that an LTIP Award was not appropriate. The Annual Report on Remuneration, on pages 95 to 103, which sets out how the Group has remunerated the Directors during the year is being proposed for an advisory vote by Shareholders at the same meeting.

I and my Committee colleagues will be in attendance at the Company's 2014 AGM and will be pleased to discuss any remuneration matters with you. 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.

The Committee hopes that the arrangements set out in this report will meet the approval of Shareholders.

Sir Roderic Lyne
Remuneration Committee Chairman

Contents of this Report:
This report sets out details of the remuneration policy for Executive and Non-Executive Directors, describes the implementation of that policy and discloses the amounts paid relating to the year ended 31 December 2013.

The report complies with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report has been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

The Directors' remuneration policy (set out on pages 88 to 94) will be put to shareholders for approval in a binding vote at the AGM. The effective date of the policy is 17 June 2014 which is the dates shareholder approval is being sought for the policy for the first time under the new reporting rules.

The Statement from the Chairman of the Remuneration Committee (set out on this page) and the Annual Report on Remuneration (set out on pages 95 to 103) will be subject to an advisory vote at the AGM.

Remuneration policy report

The Group's remuneration policy is designed to provide remuneration packages sufficient to retain and motivate high calibre executives and to attract new talent as required. The Committee takes into account the principles of sound risk management when setting pay and takes action to ensure that the remuneration structure at Petropavlovsk does not encourage undue risk.

The table below summarises the main elements of the remuneration packages for the executive directors.

Information on how the Company intends to implement the policy for the current financial year is set out in the Statement of implementation policy in 2014 on pages 99 and 100.

Remuneration element	**Base salary**
Purpose and link to strategy	Paying a market competitive level of guaranteed cash earnings enables the Company to attract and retain executives of suitably high calibre to manage and execute the Board's strategic plans.
Operation	Salary is paid monthly in arrears in cash. Whilst the obligation of the Company is in sterling, Sergey Ermolenko and Dmitry Chekashkin receive a proportion of their pay in Russian roubles, being their local currency. The Committee reviews base salaries annually, taking into consideration any recommendation from the Company Chairman regarding the Executive Directors. Salary increases typically take effect from 1 January each year, unless there is a significant change in the responsibilities of the role. Reviews take account of: – the individual performance of the Executive Director, his or her experience, skills and potential; – the challenges intrinsic to that individual's role; – market competitiveness within the Group's sector; – salary increases across the wider employee population; and – the wider pay environment.
Maximum opportunity	There is no prescribed maximum salary or maximum rate of increase. The Committee would only expect to award an increase higher than inflation where this reflected and was justified by additional responsibilities, promotion, exceptional performance or any similar factors which the Committee judged relevant within the context of the Group's overall policy.
Performance metrics	Not applicable, although the individual's contribution and overall performance is one of the considerations in determining the level of any salary increase.

Remuneration element	**Benefits**
Purpose and link to strategy	Offering market competitive benefits enables the Company to retain and attract suitably high calibre executives to manage the Board's strategic plans
Operation	Executives are entitled to private medical insurance for the Executive and his/her family, which is treated as a benefit in kind for UK tax resident directors. Benefits may include (but are not limited to): – Life assurance up to 4x salary, subject to underwriting; – Ill health income protection; and – Travel insurance while on Company business.
Maximum opportunity	The cost of these benefits to the Company depends upon market rates and availability of the respective benefits.
Performance metrics	None

Remuneration element	**Pension**
Purpose and link to strategy	To provide market competitive pension benefits that are in line with the wider workforce whilst ensuring no undefined liability on the Company
Operation	All Executive Directors receive contributions from the Company into a personal pension plan or similar savings vehicle with the exception of Messrs Hambro, Ermolenko and Chekashkin.
Maximum opportunity	A Company contribution of up to12.5% of salary, depending on length of service, is made to a personal pension arrangement with a minimum contribution from the Executive Directors of 3%. Cash in lieu of pension may also be made by way of a salary supplement, or a combination of both. These arrangements depend on the individual circumstances and place of residence of the Executive Director concerned.
Performance metrics	None

Remuneration element	Annual Bonus
Purpose and link to strategy	The Committee uses the annual bonus to create a focus and financial incentive for the delivery of the annual budget and short term financial strategic imperatives.
Operation	Annual performance targets are set by the Committee at the beginning of the year, with the bonus payable determined by the Committee after the year-end, based on the Group's achievement against pre determined targets.
Maximum opportunity	Maximum bonus opportunity is 100% of salary. For target level performance, the bonus earned is 60% of maximum.
Performance metrics	Performance is assessed against a range of strategically important measures which may vary each year depending upon the annual priorities of the Group and on the achievement of certain elements of the annual budget. 100% of the bonus is linked to the achievement of Group bonus objectives. These are set by the Committee and include measures such as: – Annual gold production – Total cash costs – Net debt – Delivery of capital expenditure projects on time and within budget – Exploration success – Safety The bonus scheme is not a contractual entitlement and the bonus is payable at the discretion of and subject to the approval of the Remuneration Committee. The Remuneration Committee may take into consideration the overall relative success of the Group when assessing the achievement of bonus targets and bonus payments. Bonus payments may be deferred, paid in the form of Deferred Bonus Awards (see Long-Term Incentive Plan below), and may be subject to 'clawback' in certain circumstances including material misconduct, material misstatement of the results, a calculation error and / or poor information when calculating the reward outcome.

Remuneration element	Long-Term Incentive Plan ('LTIP')
Purpose and link to strategy	The long-term incentive arrangement reinforces effective risk management by aligning Executive Directors' interests with the long-term interests of Shareholders through regular awards of performance shares vesting only on the satisfaction of challenging long-term performance conditions.
Operation	Awards of performance shares are made which are based on performance over 3 years, with vesting on the third anniversary of grant subject to (i) the satisfaction of performance targets and (ii) continued service ('Performance Share Awards'). There is no opportunity to retest the performance conditions. The Committee, in its absolute discretion, may increase the number of shares that have vested by an amount equivalent to the amount of dividends paid on the vested shares from the date of grant until the date of vesting, calculated in accordance with the rules of the plan. In addition the Committee may grant deferred bonus awards, being an award of shares in lieu of annual bonus and conditional upon continuing service ('Deferred Bonus Awards'). It is the Committee's intention to grant Performance Share Awards over the term of the policy. Deferred Bonus Awards may be granted in relation to the 2014 bonus in lieu of a cash bonus, subject to the achievement of specific targets relating to the 2014 Annual Bonus Scheme. The Committee will consider the appropriateness of Deferred Bonus Awards for 2015 and 2016, and the vesting period for any such awards, at the relevant time.
Maximum opportunity	The maximum award is 100% of salary. However, in exceptional circumstances, such as to facilitate the recruitment of an external hire, this may be exceeded to a maximum of 200% of salary. Threshold performance will result in 30% vesting.

Performance metrics	The Company consulted some of its major shareholders in 2013 regarding the following performance targets. For 2014 it is proposed that the performance conditions for the Performance Share Awards will be based on the following: (i) 50% Replenishment of Reserves and Resources (ii) 50% Total Shareholder Return versus FTSE350 Mining Companies The Committee will regularly review the performance conditions and targets to ensure they are aligned to the Group's strategy and that they remain challenging. The relevant metrics and the respective weightings may vary each year based upon the Company's strategic priorities. The detailed metrics for the proposed 2014 Performance Share Awards are set out in the Annual Report on Remuneration on page 100.

1. Notes to the Policy Table

The Committee reserves discretion to make minor changes to this Policy, which do not have a material advantage to Directors, to aid in its operation or implementation taking into account the interests of Shareholders but without the need to seek Shareholder approval. Any such changes will be reported to Shareholders in the following year's Annual Report on Remuneration.

Explanation of performance metrics chosen

Performance targets are set to be stretching and achievable, taking into account the Group's strategic priorities and the environment within which the Group operates. In setting these performance targets the Committee will take into account a number of different reference points which may include the Group's long-term mining plan, budgets and operational plans.

Annual Bonus

Strategic bonus objectives are set for the Executive Directors and Executive Committee, achievement of which will ensure the delivery of the Company's immediate policy objectives within the wider context of the Group's long-term strategy and corporate responsibilities. Short term bonus objectives may therefore reflect key financial objectives of the Company, exploration success, delivery of specific investment projects and health and safety objectives and rewards delivery against these.

LTIP

The LTIP performance targets reflect the Company's strategic objectives and therefore the decisions which ultimately determine the success of the Group. Following consultation with Shareholders in 2013 the Committee has determined that the following two performance conditions are appropriate for 2014:

(i) Replenishment of Reserves and Resources – The Group depends on replenishment of its Reserves and Resources for its future growth and for the long-term success of the Company; and

(ii) TSR performance of the Company compared with its peers. This aligns the Executive's objectives with the interest of the Company's Shareholders and is a broad measure of the extent to which the Group's strategy is considered appropriate by the market as well as the extent to which it is being well implemented.

The Committee retains the discretion to adjust the performance targets and measures where it considers it appropriate to do so (for example, to reflect changes in the structure of the business and to assess performance on a fair and consistent basis from year to year).

2. Remuneration policy for other employees

A large percentage of the Group's employees are based at the Group's mines in the Amur Region in the Far East of Russia while corporate, administrative and support staff are based at the Group's offices in Blagoveshchensk, Moscow and London. The Board aims to ensure that employees are paid competitively within the region. Employees based at the Group's mines receive basic salary, shift and production related bonuses where applicable to their role, together with certain benefits.

3. Shareholding guidelines

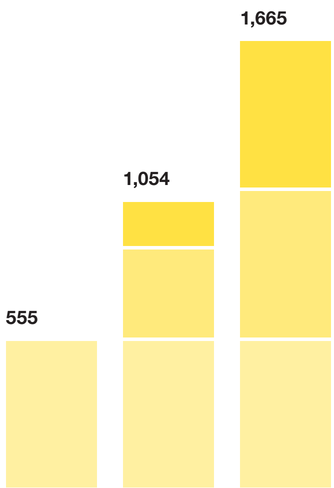
The Committee continues to monitor market trends with respect to minimum share ownership guidelines for the Company's Executive Directors. As the Executive Directors, (with the exception of the Chief Financial Officer, Andrey Maruta,) have received no salary increases since 2012, had no bonus opportunity in 2013 and have not received an LTIP award since 2011 (any of which might have enabled the Executive Directors to acquire or receive additional shares), the Committee at this time does not consider that the introduction of minimum shareholding guidelines would be equitable. This will remain on the Committee's agenda. Andrey Maruta, Alya Samokhvalova and Martin Smith each received 17,708 ordinary shares on 2 April 2013 following the deferred vesting of 42.5% of the 2009 LTIP Award. To date each has retained the full entitlement.

4. Reward scenarios

The Company's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The graphs below illustrate how the total pay opportunities for the Executive Directors vary under three different performance scenarios: minimum, target and maximum. When reviewing the graphs, it should be noted that it has been prepared on the policy detailed above and ignores, for simplicity, the potential impact of future share price growth.

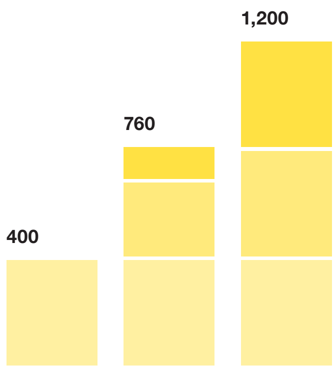
Potential value of proposed 2014 annual remuneration:

Executive Chairman (£'000)



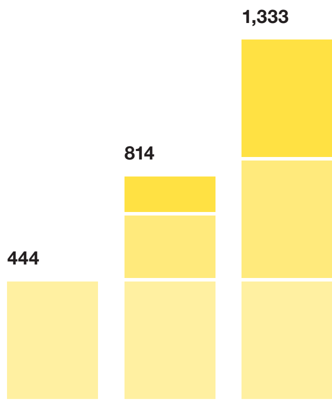
	Minimum	Target	Maximum
Fixed pay	100%	53%	33%
Variable pay	0%	47%	67%

Chief Executive (£'000)



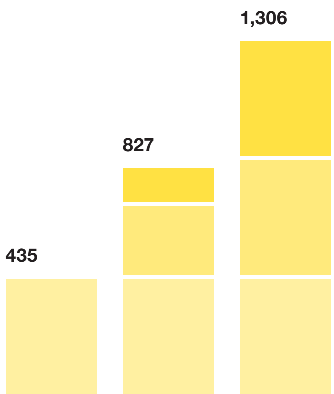
	Minimum	Target	Maximum
Fixed pay	100%	53%	33%
Variable pay	0%	47%	67%

Chief Financial Officer (£'000)



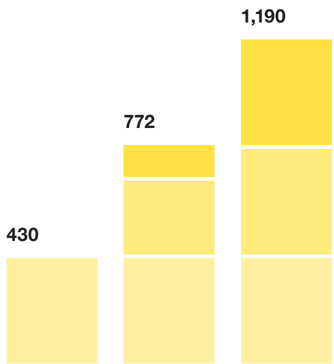
	Minimum	Target	Maximum
Fixed pay	100%	55%	33%
Variable pay	0%	45%	67%

Deputy Chief Executive (£'000)



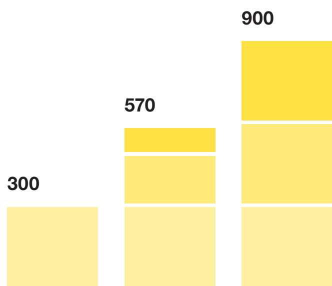
	Minimum	Target	Maximum
Fixed pay	100%	53%	33%
Variable pay	0%	47%	67%

Strategic Director (£'000)



	Minimum	Target	Maximum
Fixed pay	100%	56%	36%
Variable pay	0%	44%	64%

Chief Operating Officer (£'000)



	Minimum	Target	Maximum
Fixed pay	100%	53%	33%
Variable pay	0%	47%	67%

Key
- LTIP
- Annual bonus
- Salary, pension & benefits

Assumptions
Minimum = fixed pay only (base, salary, benefits and pension where applicable);

Target = 60% payable of the 2014 annual bonus and 30% vesting of the 2014 LTIP awards.

Maximum = 100% payable of the 2014 annual bonus and 100% vesting of the 2014 LTIP awards.

Salary levels (on which other elements of the package are calculated) are based on levels as at 1 January 2014. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed on page 88) for the year ended 31 December 2013. The pension value for Messrs Maruta and Smith and Dr Samokhvalova is set at 12.5% of basic salary.

It is currently proposed that the 2014 LTIP Awards will be made following the success of the Group's refinancing plan, provided that the Company is able to make such awards at such time. For the purposes of the graphs, it has been assumed that awards at 100% of salary are made.

5. Recruitment and promotion policy

The Committee's policy is to set pay for new Executive Directors within the existing remuneration policy in order to provide internal consistency. The Committee aims to ensure that the Company pays no more than is necessary to appoint individuals of an appropriate calibre.

Remuneration element	Policy
Base Salary	Salary for a new hire (or on promotion to Executive Director) would be set at a level sufficient to attract the best candidate available to fill the role, taking into account the Group's position and strategy, market conditions and country of residence. The Committee would be prepared to set the salary of a new hire at a premium to those paid to the predecessor if this was necessary to attract and appoint a candidate with the requisite experience, seniority and calibre.
Benefits	Benefits will be set in accordance with the Company's remuneration policy. In addition, where necessary, the Committee may approve the payment of relocation expenses to facilitate recruitment. Flexibility is retained to pay for legal fees and other costs incurred by the individual in relation to his or her appointment.
Pensions	A defined contribution or cash supplement up to12.5% of salary subject to any particular considerations for a recruit who will be principally based outside of the UK.
Annual Bonus	The annual bonus will operate as outlined for current Executive Directors save that the Committee reserves the discretion to apply the maximum bonus payable of 200% of base salary for the appointment of an Executive Director if this is considered necessary to recruit the preferred candidate. Depending on the timing of the appointment and responsibilities of the appointee, it may be necessary to set different performance measures and targets initially.
Long-Term Incentives	LTIP awards will be granted in line with the policy outlined for the current Executive Directors. An award may (and would usually) be made upon appointment (subject to the Company not being prohibited from doing so). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant and further awards may also be considered. The maximum award for a new hire (or on promotion to Executive Director) is 200% of salary.
Buy-out Awards	In the case of an external hire, the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company (and therefore Shareholders) to facilitate the buy-out of value forfeit on joining the Company. Such payments would take account of remuneration relinquished when leaving a former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Any such buy-out would not have a fair value higher than that of awards forfeited. The Committee will use the components of the Remuneration Policy when suitable but may also avail itself of Rule 9.4.2 of the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.

6. Details of service contracts

Executive Directors have service contracts with the Company which provide for a twelve month notice period, from both the Company and the Executive Director.

Termination and loss of office payments
If the Company terminates the employment of the Executive Director with immediate effect, in the absence of a breach of the service agreement by the Director, a payment in lieu of notice may be made. This may include base salary, pension and benefits. Benefits may also include, but are not limited to, legal fees.

Unvested LTIP Awards
Outstanding awards under the LTIP will normally lapse if an executive leaves the Company before the vesting date. However, in 'good leaver' scenarios these may vest. 'Good leaver' scenarios include injury, ill-health, disability, retirement, death, the participants employing company or business being sold out of the Group, or any other reason that the Committee determines appropriate.

A 'good leaver's' unvested Performance Share Awards will vest on such date as is determined by the Committee, subject to the achievement, or likely achievement, of any relevant performance condition, with a pro-rata reduction to reflect the proportion of the vesting period remaining.

A 'good leaver's' unvested Deferred Bonus Award will vest on such date as is determined by the Committee subject to a pro-rata reduction to reflect the proportion of the vesting period remaining.

Upon a change of control LTIP Awards will usually vest on the date of the change of control, subject to the achievement or likely achievement, of any relevant performance conditions with a pro-rata reduction to reflect the proportion of the vesting period remaining.

Annual Bonus
Any annual bonus payment will be at the discretion of the Committee on an annual basis and the decision whether or not to award a bonus in full or in part will depend upon a number of factors including the circumstances of the Executive's departure and contribution to the Group during the bonus period in question. Any bonus amount paid will typically be pro-rated for time in service to termination and will, subject to performance, be paid at the usual time.

Termination without notice
Executive Directors' service contracts may be terminated without notice for certain events, such as gross misconduct. No payment or compensation beyond sums accrued up to the date of termination will be made if such an event occurs.

Other arrangements
The Committee will retain discretion to approve new contractual arrangements with departing Executive Directors including settlement, confidentiality agreements, providing the provision of outplacement services, agreement of restrictive covenants and consultancy arrangements. The Committee will use its discretion in this respect sparingly and will only enter into such arrangements where the Committee believes that it is in the best interests of the Company and its Shareholders to do so.

7. Non-Executive Directors' Remuneration Policy

Non-Executive Directors do not receive benefits from the Company and they are not eligible to receive pension contributions or participate in any bonus or incentive plan. Any reasonable expenses that they incur in the deliverance of their duties are reimbursed by the Company.

Details of the policy on Non-Executive Director fees are set out in the table below.

	Fees
Purpose and link to strategy	To attract and retain high performing independent Non-Executive Directors by ensuring that fees are competitive.
Operation	Paid monthly in arrears and reviewed annually by the Board, after recommendation from the Chairman. Fee increases, if applicable are normally effective from 1 January.
Maximum opportunity	There is no prescribed maximum annual increase although fees are determined by reference to time commitment and relevant benchmark market data. The Chairman of the Audit Committee, the Remuneration Committee and the Senior Independent Director may also receive an additional fee in recognition of the greater time commitment. The aggregate annual fees are limited to £1.0 million under the Company's Articles of Association.
Performance metrics	The performance of each Non-Executive Director is assessed as part of the Board evaluation process.

In recruiting a new Non-Executive Director, the Board will use the policy as set out in the table above.

Non-Executive Directors are appointed for an initial term of three years and have formal letters of appointment setting out their duties and responsibilities. The appointment can be terminated by paying in lieu of the notice period with such pay being limited to the Non-Executive Director's basic fee.

8. Differences in remuneration policy for Executive Directors compared to other employees

The Committee will consider the level of salary increases that have been made to the Group's employees when considering salary increases for the Executive Directors and members of the Executive Committee whilst taking into consideration the diverse nature of the roles, responsibilities, and geographic locations and economies of the Group's workforce. The Company does not actively consult with employees on executive remuneration.

Executive Committee members and selected employees in London, Moscow and Blagoveshchensk, also participate in the Company's annual bonus scheme. Executive Committee members and a number of senior employees, principally based within Russia participated in the 2011 LTIP Award grant. It is the intention that the 2014 LTIP Award will also be granted to senior employees of the Group in order that they have the opportunity to share in the Group's success, aligning their interest with those of the Executive Directors and Shareholders. LTIP performance conditions are the same for all participants, while award sizes vary according to level of seniority.

The key difference between Executive Directors' and Executive Committee members' remuneration and that of other employees is that, overall, the remuneration policy for these groups is more heavily weighted towards variable pay.

The Company does not have an all-employee share ownership plan and does not consider that such a plan would be appropriate given that share ownership is not a common concept within Russia. The Board believes it more appropriate and beneficial to the general workforce to reward employees, below senior employee level, with bonus payments, based on the achievement of targets that are relevant to their positions and which they can influence.

Further information on the Group's employment policies are provided in 'Our People' on page 20 of this Annual Report.

9. How the views of shareholders are taken into account

The Committee considers shareholder feedback and comment from corporate governance bodies received in relation to the AGM each year. The Committee will take these comments into consideration when reviewing remuneration policy. The Committee consulted with key institutional shareholders in February 2013 regarding the proposed change of performance conditions for the Company's LTIP.

10. Policy on external directorships

Executive Directors may accept an external non-executive appointment with the approval of the Board. Any fees earned are retained by the executive.

Annual Report on Remuneration

The following section provides details of how the Company's remuneration policy was implemented during the financial year ended 31 December 2013, and how it will be implemented in 2014.

1. The Remuneration Committee

Members of the Committee and attendance table

Director		Meeting Attendance
Sir Roderic Lyne	Appointed as Chairman on 11 June 2013	3/3
Sir Malcolm Field	Resigned as Chairman on 11 June 2013 but remains a member of the Committee	3/3
Field Marshal the Lord Guthrie		3/3
Dr David Humphreys		2/3

Role of the Committee

The principal role of the Committee is to recommend to the Board the framework and policy for the remuneration of the Company's Chairman, the Executive Directors, any newly appointed Executive Director, the Company Secretary and members of the Executive Committee. In addition, and in consultation with the Chairman and Chief Executive Officer as appropriate, the Committee is responsible for reviewing the total individual remuneration package of each Executive Director and for reviewing annually proposals for the Executive Committee members. The Committee's terms of reference are available on the Company's website at www.petropavlovsk.net.

The Activities of the Committee in 2013

The Committee held three formal meetings during the year under review. The Committee members also discussed and considered matters between these formal meetings. The Company Chairman attended part of these meetings at the Committee Chairman's invitation to provide advice on specific questions raised by the Committee. The Company Secretary attended each meeting as Secretary to the Committee.

As detailed in the letter from the Committee Chairman, 2013 was a challenging year for the Group with the impact of the gold price decline on the Group's finances necessitating swift action by the Board. Consequently the Committee had to remain fluid in its approach to remuneration during 2013 and ensure that remuneration arrangements remained appropriate with decisions of the Committee having to be reconsidered:

i. In early 2013 the Committee had approved the performance conditions for the 2013 annual bonus plan. However this plan was cancelled following the decision by the Company's Chairman and the Executive Directors to waive their entitlement to any 2013 annual bonus. The Committee, whilst welcoming this action, considered it appropriate that a maximum bonus opportunity of £50,000 be awarded to the Chief Financial Officer for the achievement of challenging financial targets. As detailed on page 98 these targets were satisfied and the Committee has approved the award of the full bonus of £50,000 to Mr Maruta.

ii. In February 2013 the Committee, having considered that the current performance conditions under the Company's LTIP were not appropriate, consulted with its major institutional shareholders seeking their support to a change in performance conditions for awards to be made under the Company's LTIP, with the first grant proposed for April 2013, following the release of the Company's 2012 results. However due to the significant decline in the gold price in April 2013 and its impact on the Company's share price, the Committee took the decision that despite having entered into this consultation no award would be made under the LTIP in April as had been proposed to Shareholders and detailed in the 2012 Directors' Remuneration Report. The Committee kept this matter under review during the year and in October 2013 decided that, given the continued volatility in the gold price and the subdued share price, no 2013 Award should be made.

In addition to the above matters the Committee:

i. Reviewed and approved the 2012 Directors' Remuneration Report;

ii. Considered the remuneration arrangements for Mr Dmitry Chekashkin who was promoted to the role of Chief Operating Officer and appointed as a Director with effect from 13 May 2013;

iii. Reviewed the base salaries of the Executive Directors and members of the Executive Committee in respect of the annual salary review due 1 January 2014, noting that given the financial circumstances of the Group in the current environment, and the reduction in the Company's market capitalisation, a salary increase was not appropriate.

iv. Continued to consider the new provisions relating to remuneration reporting which are now incorporated into Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

2. External Advisers

Kepler Associates, an independent firm of remuneration consultants appointed by the Committee after consultation with the Board, continued to act as the remuneration advisor to the Committee during the year. Kepler provides advice on remuneration for executives, analysis on all elements of the remuneration policy and regular market and best practice updates. Kepler reports directly to the Committee Chairman and is a signatory to the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at www.remunerationconsultantsgroup.com). Kepler provides no other services to the Company and is therefore considered independent. Kepler's fees for the year were charged on a time and materials basis, and totalled £9,064 plus VAT.

3. Shareholder voting at the 2013 AGM

The table below sets out the results of the vote on the Remuneration Report at the 2013 AGM:

Votes for		Votes against		Votes cast	Votes withheld
Number	%	Number	%	Number	Number
83,897,315	88.88	10,435,727	11.06	94,392,611	9,901,525

Notes:
i) Third party proxies were appointed in respect of 59,569 shares, at the discretion of the third party proxy. As the voting intention was unknown these votes were not counted in the votes 'For' or 'Against.'
ii) A 'Vote withheld' is not a vote in law and is not counted in the calculation of the votes 'For' or 'Against' a resolution.

Specific matters raised by investors included:
i) The level of vesting for target performance for the proposed 2013 LTIP Awards; and
ii) The individual targets which comprised 30% of the annual bonus plan for Directors for the year ended 31 December 2012 and the level of disclosure relating to these targets.

Actions taken in response to these concerns were:
i) The Committee has considered the concerns of Shareholders and target vesting of the proposed LTIP for future cycles will result in vesting of 30% of the Award; and
ii) As detailed in the 2012 DRR any future annual bonus will be based on Group performance targets only and no element will be based on individual performance objectives. This is effective for the year ending 31 December 2014. The level of disclosure wil be increased to include target and stretch objectives.

Directors' remuneration as a single figure (audited information)

The table below reports the total remuneration receivable in respect of qualifying services by each Director during the financial periods ended 31 December 2012 and 31 December 2013:

	Year	Salary & fees	Taxable Benefit (a)	Annual Bonus (b)	LTIP (c)	Pension	Pay in lieu of notice (d)	Single Figure Remuneration £	Single Figure Remuneration US$ (f)
Executive Director									
Peter Hambro	2013	555,000	–	–	–	–	–	555,000	867,188
	2012	596,667	–	505,744	–	–	–	1,102,411	1,749,859
Sergey Ermolenko	2013	400,000	–	–	–	–	–	400,000	625,000
	2012	400,000	–	261,000	–	–	–	661,000	1,049,206
Andrey Maruta	2013	395,000	3,281	50,000	–	49,375	–	497,656	777,588
	2012	380,000	2,913	247,950	34,247	47,500	–	712,610	1,131,127
Dmitry Chekashkin (e)	2013	190,323	–	–	–	–	–	190,323	297,380
	2012	N/A	N/A	N/A	N/A	N/A	–	N/A	N/A
Alya Samokhvalova	2013	380,000	2,384	–	–	47,500	–	429,884	671,694
	2012	380,000	2,126	241,110	34,247	47,500	–	704,983	1,119,021
Martin Smith	2013	380,000	7,074	–	–	47,500	–	434,574	679,022
	2012	380,000	5,992	258,210	34,247	47,500	–	725,949	1,152,300
Total	2013	2,300,323	12,739	50,000	–	144,375	–	2,507,437	3,917,872
Total	2012	2,136,667	11,031	1,514,014	102,741	142,500	–	3,906,953	6,201,513
Non–Executive Director									
Graham Birch	2013	86,321	–	–	–	–	–	86,321	134,876
	2012	94,600	–	–	–	–	–	94,600	150,158
Rachel English (d)	2013	75,000	–	–	–	–	23,000	98,000	153,125
	2012	69,925	–	–	–	–	–	69,925	110,992
Sir Malcolm Field	2013	94,600	–	–	–	–	–	94,600	147,812
	2012	94,600	–	–	–	–	–	94,600	150,158
Lord Guthrie	2013	92,000	–	–	–	–	–	92,000	143,750
	2012	92,000	–	–	–	–	–	92,000	146,032
David Humphreys	2013	92,000	–	–	–	–	–	92,000	143,750
	2012	92,000	–	–	–	–	–	92,000	146,032
Sir Roderic Lyne	2013	92,000	–	–	–	–	–	92,000	143,750
	2012	92,000	–	–	–	–	–	92,000	146,032
Charles McVeigh	2013	92,000	–	–	–	–	–	92,000	143,750
	2012	92,000	–	–	–	–	–	92,000	146,032
Total	2013	623,921	–	–	–	–	23,000	646,921	1,010,813
Total	2012	627,125	–	–	–	–	–	627,125	995,436

(a) Benefits are in respect of private medical insurance for the Director, his/her spouse and any children under the age of 18 years of age.

(b) The Executive Directors voluntarily offered to waive their bonus opportunity in respect of the year ended 31 December 2013. As a consequence no bonus scheme was put in place with the exception of Mr Maruta who was awarded a maximum bonus opportunity of £50,000 which was based on the achievement of challenging financial performance conditions.

(c) Due to the achievement of certain Operating Condition targets, 42.5% of the LTIP award made on 30 June 2009 would have vested on 30 June 2012 if the Company had not been in an extended prohibited period. Following the release of the Company's results for the year ended 31 December 2012 42.5% of the shares subject to the 2009 LTIP Award vested on 2 April 2013. However as the three year performance period ended in June 2012 the vesting of these Awards are allocated to 2012 remuneration in accordance with legislation.

(d) Ms Rachel English resigned as a Director of the Company on 24 October 2013 following her appointment as a director of African Barrick Gold plc. The Company paid Ms English three months' fee in lieu of notice in accordance with the terms of her letter of appointment.

(e) Mr Dmitry Chekashkin was appointed as a Director and as Chief Operating Officer on 13 May 2013. Mr Chekashkin's annual basic salary of £300,000 is pro-rated in the above table to reflect the salary earned during the period from 13 May 2013 to 31 December 2013.

(f) Rates of exchange used: 2013: £0.64:US$1, 2012: £0.63:US$1. (Average exchange rate throughout the year).

Additional disclosures

1. Salary and fees
Base salaries for the Executive Directors were unchanged during the year with the exception of Andrey Maruta, Chief Financial Officer who was awarded a c.4% increase on 1 January 2013 from £380,000 to £395,000 due to his increased responsibilities.

Mr Peter Hambro took a voluntary reduction in his salary from £655,000 to £555,000 with effect from 1 June 2012 this was not reinstated during the year.

Fees for the Non-Executive Directors were unchanged during the year with the exception of Dr Graham Birch, Senior Non-Executive Director, who took a voluntary 15% reduction from £94,600 to £80,410 with effect from 1 June 2013.

2. Pension
The Group makes contributions into a personal pension scheme on behalf of Andrey Maruta and Alya Samokhvalova. A rate of 12.5% of base salary (paid partly as a pension contribution and partly as a taxable cash supplement) is payable in return for a minimum personal contribution of 3% on pension payments.

For the period ended 31 December 2013, the Group's contribution was:

Director	Total contribution	Pension contribution	Taxable cash supplement
Andrey Maruta	£49,375	£42,511	£6,864
Alya Samokhvalova	£47,500	£36,491	£11,009

As a non UK-resident director Martin Smith received a contribution of 12.5% of base salary in respect of a pension entitlement which he is able to use to provide retirement provisions via a savings vehicle.

Messrs Hambro, Ermolenko and Chekashkin received no payment from the Company in respect of pension entitlements.

3. Annual Bonus in 2013
The Executive Directors and members of the Executive Committee voluntarily agreed to waive their bonus opportunity in respect of the year ended 31 December 2013. Consequently no bonus was payable for this period except in relation to Andrey Maruta, Chief Financial Officer who was awarded a maximum cash bonus opportunity of £50,000.

A bonus of £50,000 has been awarded to Andrey Maruta on the achievement of the following targets:

Target	Weighting (% of max)	Target (70% of max)[(a)]	Stretch (100% of max)[(a)]	Achieved	Payable
Net Debt as at 31 December 2013	50%	<US$1.15bn	<US$975m	US$948m	£25,000
Finance related target[(b)]	50%	N/A	N/A	Yes	£25,000

(a) Bonus payable was on a straight line basis between target and stretch target.

(b) This target was commercially sensitive at the time that it was set and it remains commercially sensitive. The Committee will keep this under review, and this target will be disclosed at a point in the future when it is no longer considered commercially sensitive.

4. Long-term incentive plan (LTIP)
4.1. Awards vested during the year
No awards were made under the LTIP in 2010, and as such, none are due to vest for the Executive Directors based on performance to 31 December 2013.

4.2. Awards made during the year
No awards were made to Executive Directors under the LTIP in 2013, due to difficult market conditions, as explained in the Annual Statement from the Chairman on page 87.

5. Payments to past directors
There were no payments made to past Directors during the period in respect of services provided to the Company as a Director.

6. Payments in lieu of notice
Rachel English resigned as a director on 24 October 2013 in order to take-up a directorship of African Barrick Gold plc. The Company paid Ms English three months' pay in lieu of notice in accordance with the terms of her letter of appointment.

7. External directorships
None of the Executive Directors earned remuneration from external non-executive appointments.

Statement of implementation policy in 2014

Salary and fees

The review for salary increases effective 1 January 2014 was conducted by the Committee in the context of the need to apply appropriate restraints in pay levels given the lower gold price environment and the ongoing cost-cutting programme. Consequently no increases were awarded.

No increases in fees were awarded to the Non-Executive Directors on 1 January 2014.

Salaries and fees as at 1 January 2013 and 1 January 2014 are detailed in the table below:

Director	Position	Salary/fees January 2013	Salary/fees January 2014	Change
Peter Hambro	Chairman	£555,000	£555,000	0%
Sergey Ermolenko	Chief Executive Officer	£400,000	£400,000	0%
Andrey Maruta	Chief Financial Officer	£395,000	£395,000	0%
Dmitry Chekashkin [(a)]	Chief Operating Officer	N/A	£300,000	N/A
Alya Samokhvalova	Strategic Director/ Head of External Communications	£380,000	£380,000	0%
Martin Smith	Deputy Chief Executive	£380,000	£380,000	0%
Graham Birch [(b)]	Senior Independent Director	£94,600	£80,410	(15%)
Sir Malcolm Field [(c)]	Non-Executive Director	£94,600	£94,600	0%
Lord Guthrie	Non-Executive Director	£92,000	£92,000	0%
David Humphreys	Non-Executive Director	£92,000	£92,000	0%
Sir Roderic Lyne	Non-Executive Director	£92,000	£92,000	0%
Charles McVeigh	Non-Executive Director	£92,000	£92,000	0%

(a) Dmitry Chekashkin was appointed as Chief Operating Officer and a Director of the Company on 13 May 2013.

(b) Graham Birch voluntarily took a 15% reduction in salary with effect from 1 June 2013.

(c) Sir Malcolm Field is Chairman of the Audit Committee.

Annual Bonus

The Committee has decided that it is appropriate to reinstate the annual bonus plan for 2014, however any payment will be at the sole discretion of the Committee.

The bonus will be subject to the following performance conditions:

Target	Weighting
Production	30%
Net Debt as at 31December 2014	40%
Total cash costs	30%

60% of bonus will be payable on the achievement of Target with 100% payable on the achievement of the Stretch target. Bonuses will be payable on a straight line basis between Target and Stretch.

Details of the specific targets have not been disclosed due to their commercial sensitivity. When reviewing the achievement of the 'Net Debt' performance target the Committee will take into consideration the overall impact of the refinancing plan detailed in the Chairman's Statement on page 5 of this Annual Report.

The specific targets will be detailed in the 2014 Directors' Remuneration Report unless the Committee considers that they continue to be commercially sensitive.

Summary of Annual Bonus Rules:

i) In the event that any or all of the performance targets are satisfied either partially or in full the Committee will have absolute discretion as to whether to approve any bonus payment. The Committee will take into consideration the overall financial and operational performance of the Company during the year. The payment of any bonus is subject to the success of the refinancing plan.

ii) 50% of any bonus payable will be paid in the form of a Deferred Bonus Award. The number of shares to be awarded will be based on the market share price at the date of award. The vesting of any such award will be subject to the continued service of the individual for a 12 month period from date of award except under certain 'good' leaver circumstances.

iii) The remaining 50% of any bonus will be payable in cash, subject to the normal statutory deductions.

iv) 'Clawback' may be applied at the discretion of the Committee, in the event of material misconduct, material misstatement of results, a calculation error and/or poor information used when calculating the reward outcome.

The maximum payable to any Executive Director shall be 100% of base salary.

Long-Term Incentive Award

It is the intention of the Committee to grant Performance Share Awards under the LTIP Plan following the completion of the refinancing plan. However given the relatively low share price of the Company, awards will be restricted to a maximum of 100% of base salary.

The Committee has determined, following last year's consultation process with some of the Company's major shareholders, that the performance condition governing the 2014 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.

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	Sustaining Resources at current levels	Nil	Less than median
15%	Increasing current Resources by 10% *	15%	Median *
50%	Increasing current Resources by 15% *	50%	Median +13.5% p.a. *

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

Percentage change in remuneration of the Chief Executive Officer

The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for Executive Committee members, excluding the Company Chairman. Given that the Group operates in a number of diverse locations and its employees cover a wide remit of roles, the majority of whom are operational employees based at the Group's producing mines in the Far East Amur and also include geologists, technicians at the Group's laboratories and functional staff at the Group's offices in Blagoveshchensk, Moscow and London, the Committee believes that using the Executive Committee, excluding the Company Chairman, as a subset for the purposes of comparing CEO pay against wider employee pay provides a more useful and meaningful comparison than using pay data for all employees.

	CEO			Executive Committee		
Item	2013 £	2012 £	Change %	2013 £	2012 £	Change %
Base salary	400,000	400,000	0	292,500	290,625	(0.6%)
Taxable benefits	–	–	0	1,970	1,590	23%
Annual bonus	–	261,000	–	–	191,359	–

For information purposes the Committee notes that the percentage reduction in total remuneration for the Chief Executive Officer was c.40%, decreasing from £661,000 to £400,000 (US$1,049,206 to US$625,000). The average percentage change in total remuneration for all employees (wages, salaries and bonus) for the year was (2.66%).

Relative importance of the spend on pay

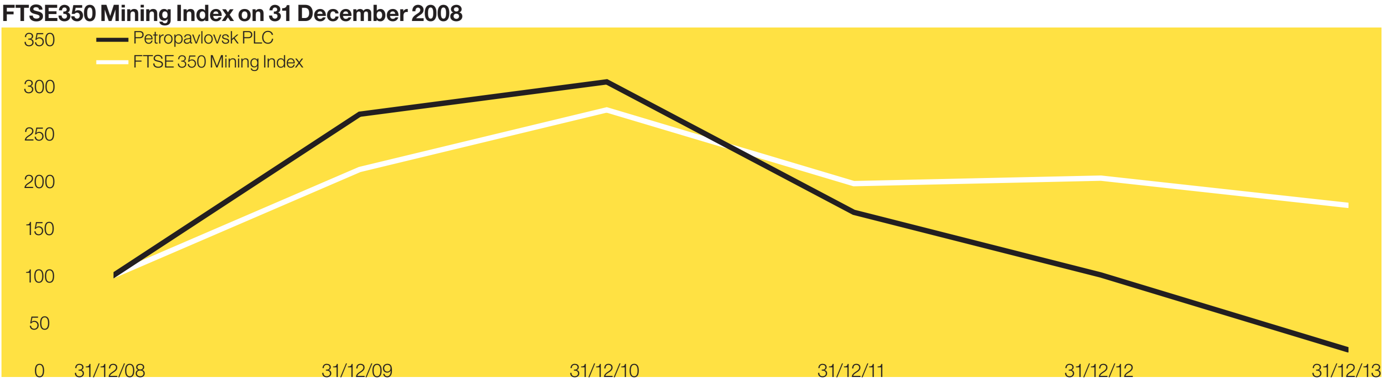
To assist in understanding the relative importance of the Directors' remuneration in the context of the Group's finances more generally, the Committee wishes to highlight the following figures:

	2013 US$m	2012 US$m	% change
Remuneration paid to or receivable by all employees (continuing operations)	187	211	(11.4%)
Remuneration of Executive Directors	3.9	6.2	(37.1%)
Distributions to Shareholders by way of distributions:			
Dividends	5.8	35.0	
Entitlement to new shares with an attributable value of £0.05	14.7	–	
Total distributions to Shareholders	20.5	35.0	(41.4%)

Total shareholder return

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.

£100 invested in Petropavlovsk and FTSE350 Mining Index on 31 December 2008



Chief Executive Officer Remuneration

	Year ended 31 December				
	2009	2010	2011	2012	2013
CEO during the year [(a)]	Dr Pavel Maslovskiy			Mr Sergey Ermolenko	
Total remuneration £	1,138,339 [(b)]	1,025,991	1,569,190	661,000	400,000
Annual bonus (%)	70% [(b)]	45%	94.4%	45.5%	0%
LTIP vesting (%)	0%	0%	0%	0%	0%

(a) Dr Pavel Maslovskiy resigned as Chief Executive Officer on 20 December 2011 and Mr Sergey Ermolenko was appointed as Chief Executive Officer on that date.

(b) Dr Pavel Maslvoskiy also received a special bonus payment of £225,000 during the year ended 31 December 2009 in recognition of the services provided in relation to the Company's acquisition of Aricom plc and to the admission of the Company's shares to trading on the Main Market of the London Stock Exchange plc. The special bonus payment of £225,000 is included in the total remuneration figure for 2009 shown above but is not included in the annual bonus percentage figure shown of 70%.

Directors' shares and share plan interests

Directors' Share interests

The interests of the Directors who held office during the period from 1 January 2013 to 31 December 2013 in the ordinary shares of the Company are as set out in the table below.

Director	Shares held as at 1 January 2013	Shares held as at 31 December 2013	Unvested and subject to performance conditions as at 31 December 2013 [a]
Peter Hambro	8,672,558	6,773,933	147,083
Sergey Ermolenko	302,500	318,247	17,433
Andrey Maruta	3,333	22,135	76,605
Dmitry Chekashkin [b]	N/A	18,629	70,123
Alya Samokhvalova	–	18,629	76,605
Martin Smith	–	18,629	76,605
Graham Birch	10,000	15,780	–
Rachel English [c]	–	N/A	N/A
Sir Malcolm Field	50,312	52,930	–
Lord Guthrie	–	–	–
David Humphreys	1,820	1,914	–
Sir Roderic Lyne	1,625	1,709	–
Charles McVeigh III	500	526	–

(a) LTIP awards are granted as Performance Shares Awards being awards delivering free shares granted as conditional awards, subject to the achievement of specific performance conditions.

(b) Appointed to the Board on 13 May 2013

(c) Resigned from the Board on 24 October 2013

There have been no changes to shareholdings between 1 January 2014 and 28 April 2014.

Long-Term Incentive Plan

Executive Directors' interest in the LTIP

The individual interests for the Executive Directors which represent the maximum aggregate number of shares to which each individual could become entitled are as follows:

Director	Date of award	At 1 January 2012	Face value at grant	Vested during the year	Lapsed	At 31 December 2013	Normal vesting date
Peter Hambro	12 May 2011 [(a)]	147,083	£1,247,999	–	–	147,093	12 May 2014
Sergey Ermolenko	12 May 2011 [(a)]	17,433	£147,919	–	–	17,433	12 May 2014
Dmitry Chekashkin	12 May 2011 [(a)]	70,123	£594,993	–	–	70,123	12 May 2014
Andrey Maruta	25 June 2009 [(b)]	41,666	£249,996	17,708	23,958	–	30 June 2012
	12 May 2011 [(a)]	76,605	£650,001	–	–	76,605	12 May 2014
Alya Samokhvalova	25 June 2009 [(b)]	41,666	£249,996	17,708	23,958	–	30 June 2012
	12 May 2011 [(a)]	76,605	£650,001				
Martin Smith	25 June 2009 [(b)]	41,666	£249,996	17,708	23,958	–	30 June 2012
	12 May 2011 [(a)]	76,605	£650,001	–	–	76,605	12 May 2014

(a) Awards made in May 2011 (with a performance period of 12 May 2011 to 11 May 2014) were based on a share price at date of grant of £8.485. Vesting of the LTIP Award is subject to the achievement of the following performance conditions, over a three year performance period commencing on the date of grant:

Performance Condition 1: 70% of the Award is subject to the Company's Total Shareholder Return compared to a bespoke mining comparator group; and

Performance Condition 2: 30% of the Award is subject to the Company's Total Shareholder Return compared with the FTSE350 Mining Index.

Performance Condition 1		**Performance Condition 2**	
% of total award that would vest	Target to be achieved	% of total award that would vest	Target to be achieved
Nil	Less than median	Nil	Less than median
35%	Median *	15%	Median *
70%	Top decile*	30%	Median +13.5% p.a.*

** Vesting will be on a straight line between these levels*

Full details of the performance conditions are provided in the 2012 Directors' Remuneration Report.

(b) Vesting of the LTIP Awarded on 25 June 2009 was subject to the satisfaction of the following performance conditions, over a three year period commencing on the date of grant and ended on 30 June 2012:

i) 50% of the Award was subject to the Company's Total Shareholder Return compared with a bespoke mining company; and

ii) 50% was subject to the satisfaction of certain operating conditions which were considered as essential to the delivery of the Group's strategy during the 3 year performance period.

These Awards were based on a share price at date of grant of £6.00.

42.5% of the Awards satisfied the Operating Conditions on 30 June 2012. However the Award was unable to vest until 2 April 2013 as the Company was in an extended prohibited period.

Full details of the Operating Conditions that were satisfied and the decisions undertaken by the Committee in this respect are provided in the 2012 Directors' Remuneration Report.

Approval

The Annual Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

Sir Roderic Lyne
Chairman, Remuneration Committee
28 April 2014

Directors' Report

For the year ended 31 December 2013

This report
The Corporate Governance Section on pages 74 to 107 and the Statement of Directors' Responsibilities on page 108 form part of this Directors' Report and are incorporated by reference.

Management Report
This Directors' Report together with the Strategic Report on 4 to 69 forms the Management Report for the purposes of DTR 4.1.5 R.

1. Directors, Directors' appointment, conflicts of interest and Directors' indemnity

1.1. Directors
The current Directors of the Company at the date of this report and their biographical details appear on pages 72 and 73 and are incorporated into this report by reference. Subject to the following all of the Directors held office throughout the year ended 31 December 2013.

- Mr Dmitry Chekashkin was appointed as a Director and as Chief Operating Officer on 13 May 2013.
- Ms Rachel English resigned as a Non-Executive Director on 24 October 2013.

1.2. Directors' appointment
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 Shareholders. 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 or her term of office.

In accordance with the requirements of the UK Corporate Governance Code all directors will stand for election at the 2014 AGM. Further information on the appointments to the Board is set out in the Corporate Governance Statement on pages 74 to 80.

1.3. 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.

The Board has an established procedure for the disclosure of interests and other related matters. Each Director must promptly disclose actual or potential conflicts and any changes to the Board which are noted at each Board meeting. The Board considers and authorises potential or actual conflicts as appropriate. Directors with a conflict do not participate in the discussion or vote on the matter in question. The Board has established an Independent Committee, comprising three Non-Executive Directors to consider and, if appropriate, approve certain related party matters.

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. Related party transactions, which includes those in respect of any Director, are disclosed in Note 26 on page 52.

1.4. 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.

1.5. 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.

2. Other statutory disclosures

2.1. Dividends
The Directors do not recommend a final dividend in respect of the year ended 31 December 2013. Future decisions regarding the dividend will be based on a number of factors, including market conditions, balance sheet strength and liquidity, operational performance, and the impact of the on-going cost reduction programme.

2.1. 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 Annual 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.

Further details of the Group's equal opportunities policies are provided in the Sustainability section of this Annual Report on page 21 and are incorporated into this Directors' Report by reference.

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

Further information is provided in the Operations & Development and Exploration Reserves and Resources sections on pages 38 to 59 of the Strategic Report and are incorporated into this Directors' Report by reference.

2.3. Greenhouse Gas Emissions
The disclosures concerning greenhouse gas emissions required by law are included in the Strategic Report, on page 17.

2.4. Donations
No political donations were made and no political expenditure was incurred during the year (2012:£nil).

Details of the Group's charitable activities are set out in the Sustainability section on page 19 of this Annual Report.

2.5. 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 31 to the financial statements and in the Report of the Risk Committee on pages 26 to 37 which form part of this Directors' Report.

3. Share capital and related matters

3.1. Share Capital
The structure of the issued share capital of the Company at 31 December 2013 is set out in note 23 to the financial statements.

The Company has one class of Ordinary Share which carries no rights to fixed income.

3.2. Shareholders' rights
The rights attaching to the Ordinary Shares are governed by the Company's Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding.

Subject to applicable law and the Articles of Association, holders of Ordinary Shares are entitled to receive all shareholder documents, including notice of any general meeting; attend, speak and exercise voting rights at general meetings, either in person or by proxy; and participate in any distribution of income or capital.

3.3. Restrictions on voting
In general there are no specific restrictions on the shareholder's ability to exercise their voting rights, save in situations where the Company is legally entitled to impose such restrictions (usually where amounts remain unpaid on the shares after request, or the shareholder is otherwise in default of an obligation to the Company). Currently, all issued Ordinary Shares are fully paid.

3.4. 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.

3.5. 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 Conduct 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.

3.6. Shareholder agreements
The Company is not aware of any agreement between its Shareholders that may restrict the transfer of their shares or the exercise of the voting rights attaching to them, save in relation to the employee benefit trust established by the Company, the Petropavlovsk PLC Employee Benefit Trust, to facilitate the Company's Long-Term Incentive Plan. The trustee, which is independent of the Company, does not seek to exercise voting rights on the Ordinary Shares held in trust. Details of the Company's Long-Term Incentive Plan are set out in the Directors' Remuneration Report on pages 87 to 103.

3.7. 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.

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

3.8. Repurchase of Ordinary Shares
The Company was granted authority to repurchase up to 9,393,005 Ordinary shares at the Annual General Meeting held on 11 June 2013. This authority will expire on 11 December 2014 or, if earlier, at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, unless previously revoked, varied or renewed by the Company in a general meeting. The Company has not made use of this authority during the year under review. The Board does not intend to seek to renew this authority at the 2014 Annual General Meeting.

3.9. Interests in Voting Rights

Information provided to the Company pursuant to the Financial Conduct Authority's ('FCA') Disclosure and Transparency Rules ('DTRs') is published on a Regulatory Information Service and on the Company's website. As at 28 April 2014, the Company had been notified of the following interests in the ordinary share capital of the Company (being voting rights over such share capital).

Shareholder	Number of Shares	% interest in shares
Van Eck Associates Corporation	19,758,130	10.00
Norges Bank	13,809,416	6.99
Schroders Plc	10,066,216	5.09
Vanguard Precious Metals and Mining Fund	9,125,114	4.62
Peter Hambro & Associates	6,773,932	3.43

As at 28 April 2014, the Company has not received any notification that any other person holds 3% or more of the Company's issued share capital.

3.10. Amendment of Articles of Association

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

4. Provisions of change of control and post-balance sheet events

4.1. Provisions of 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. As at the date of this Report a total of US$310.5 million Bonds were outstanding.

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.

4.2. Post-balance sheet events

There have been no material events from 31 December 2013 to the date of this report except as detailed below:

4.2.1. Issue of shares by IRC Limited

On 26 February 2014, 165,000,000 new shares of IRC Limited were allotted and issued to General Nice after IRC received subscription monies of HK$155.1 million (approximately US$200 million) from General Nice. Further details are set out in note 27 to the Financial Statements.

4.2.2. Hedging arrangement

In January 2014, the Group entered into financing contracts to sell a total of 85,115oz of gold during 2014 at an average price of US$1,250oz.

5. 2014 Annual General Meeting

5.1. Notice of General Meeting

A separate document, the Notice of Annual General Meeting 2014, convening the Annual General Meeting of the Company to be held on 17 June 2014 at 2.30pm, will be sent or made available to all Shareholders and will contain an explanation of the resolutions to be proposed to that meeting. The Directors consider that each of the Resolutions is in the best interests of the Company and the Shareholders as a whole and recommend that Shareholders vote in favour of all of the Resolutions.

5.2. Electronic proxy voting

Registered Shareholders have the opportunity to submit their votes (or abstain) on all Resolutions proposed at the Annual General Meeting by means of an electronic voting facility operated by the Company's registrar, Capita Asset Services. This facility can be accessed by visiting www.capitashareportal.com. CREST members may appoint a proxy or proxies by using the CREST electronic appointment service.

5.3. Electronic Copies of the Annual Report and Financial Statements and Other Publications

Copies of the 2013 Annual Report, the notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Group's website at www.petropavlovsk.net. Shareholders are encouraged to take advantage of the provisions allowing the Group to deliver notices of meetings and associated documentation electronically by email, or via the Group's investor relations webpages at www.petropavlovsk.net/en/investors.

6. Accountability and audit

6.1. Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 69 of this Annual Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's statement on pages 60 to 69 of this Annual Report. In addition, note 31 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As described in the Chairman's statement on page 5 of this Annual Report, following the significant decline in the gold price over the year and notwithstanding subsequent revision of the Group's plans in the absence of refinancing the Group's forecasts show breaches of certain covenants in its banking facilities at 31 December 2014. In addition the US$310.5 million outstanding Convertible Bonds are due for repayment in February 2015 and the Group does not currently have sufficient committed facilities to refinance this debt.

As explained on page 5 of this Annual Report, the Group has developed a refinancing plan which includes negotiating with the Group's senior lenders and ICBC (on relaxation of the covenants in its banking facilities) and refinancing its Convertible Bonds. Based on negotiations conducted to date, the Directors have a reasonable expectation that the Group will receive sufficient relaxation of covenants in its banking facilities, and refinance its Convertible Bonds maturing in February 2015.

The Directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the refinancing will be concluded successfully and the Group will therefore have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2013 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

6.2. Information to the Independent Auditors

The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and that each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given persuant to Section 418 of the Companies Act 2006 and should be interpreted in accordance with and subject to these provisions.

6.3. Resolution to re-appoint Independent Auditors

Deloitte LLP has 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.

7. Fair, balanced and understandable

The Directors consider this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

Amanda Whalley
Company Secretary
28 April 2014

Statement of Directors' Responsibilities

For the year ended 31 December 2013

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 ('IFRS's) 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 judgments 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

Each of the Directors, whose names and functions are listed on pages 72 and 73 of this Annual Report, confirm that, to the best of their 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
28 April 2014

Andrey Maruta
Chief Financial Officer
28 April 2014

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2013

Opinion on financial statements of Petropavlovsk plc
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 2013 and of the group's and the parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

The financial statements comprise 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 36, 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 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).

Emphasis of matter – Going concern
As required by the Listing Rules we have reviewed the directors' statement on page 107 that the Group is a going concern.

As described in note 2.1 to the financial statements, following the significant decline in the gold price over the year and notwithstanding subsequent revision of the Group's plans, in the absence of refinancing the Group's forecasts show breaches of certain covenants in its banking facilities at 31 December 2014. In addition, the US$310.5 million outstanding Convertible Bonds are due for repayment in February 2015 and the Group does not currently have sufficient committed facilities or available funds to refinance this debt.

The Directors have developed a refinancing plan which includes negotiating with the Group's senior lenders and ICBC on relaxation of covenants in its banking facilities and refinancing its Convertible Bonds. Based on negotiations conducted to date, the Directors have a reasonable expectation that the Group will receive sufficient relaxation of covenants in its banking facilities and refinance its Convertible Bonds maturing February 2015.

Whilst we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, the conditions as set out above indicate the existence of a material uncertainty which may give rise to significant doubt over the Group's ability to continue as a going concern. We describe below how the scope of our audit responded to this risk. Our opinion is not modified in respect of this matter.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk		How the scope of our audit responded to the risk
Going concern	Following the significant decline in the gold price over the year and notwithstanding subsequent revision of the Group's plans, in the absence of refinancing, the Group's forecasts show breaches of certain covenants in its banking facilities at 31 December 2014. In addition, the US$310 million outstanding Convertible Bonds fall due for repayment in February 2015 and the Group does not currently have sufficient committed facilities or available funds to refinance this debt.	We have challenged the key assumptions in management's forecast cashflows for the next 12 months (base case and downside scenarios) by: – considering management's going concern paper which was presented to the Board, and the accompanying cash flow and banking covenant compliance forecasts for the going concern period. This paper included stress tests for a range of reasonably possible scenarios; – comparing the gold price assumptions used in these forecasts to external forecasts; – using our mining specialists to analyse the production profile and recovery rates and assess the extent to which further oxide ore reserves have become available by interviewing the chief geologists at the mine sites and reviewing the State approved reserve submissions; – comparing the mining and processing costs by reviewing the historical accuracy of budgeted costs and the extent to which the cost cutting measures had been executed during the year; – agreeing the Group's committed debt facilities and hedging arrangements to supporting documentation; – discussing and reviewing management's refinancing plans; and – considering whether the disclosures relating to going concern included in the financial statements are balanced, proportionate and clear.

Risk		How the scope of our audit responded to the risk
Impairment of property, plant and equipment	Following the decline in the gold price during the year, management recorded a significant impairment of the carrying value of the Group's property, plant and equipment in the half year results. Management performed impairment tests as at 31 December 2013 and no further impairments were required. These tests require significant judgement to be exercised.	We challenged management's significant assumptions used in the impairment testing for property, plant and equipment described in notes 3.3 and 6 to the financial statements, and specifically the cash flow projections, by: – using our internal mining specialists who have extensive valuation experience to analyse management's long term mining plans which form the basis of their recoverable value models; – comparing the discount rates and the long term gold prices assumed to external forecasts; – assessing management's allocation of the capital costs of the POX project between the cash generating units, for the purposes of the impairment tests; and – reviewing management's accounting paper with consideration of all of the assumptions supporting their conclusion.
Inventory	Inventory is required to be carried at the lower of its cost and net realisable value. The measurement and valuation of deferred stripping assets, gold in circuit and stockpiles included in inventory, together with their net realisable values are complex, involve judgement and are based on assumptions about future mining activities, gold prices and processing costs.	We challenged management's significant assumptions used in their assessment of the measurement and valuation of inventory, described in note 2.20 and note 15 to the financial statements, as described below by: – assessing the net realisable value of inventory by using our internal mining specialists to evaluate the processing cost assumptions and comparing the forecast gold price assumptions to external prices; – considering the detailed mine plans to verify whether stripping was correctly deferred and amortisation appropriately calculated. Furthermore, together with our mining specialists, we have visited each of the key mines and discussed with mine management their on-going stripping plans and reviewed the pit-by-pit cross sections to confirm that the stripping relates to ore bodies that are scheduled to be mined in the future; – attending inventory counts at each of the key operating locations; and – reviewing management's measurement and control procedures on gold-in-circuit and assessing the reasonableness of gold-in-circuit by reconciling gold production, sales and recovery together with our internal mining specialists.

Risk		How the scope of our audit responded to the risk
Impairment of exploration and evaluation assets	Following the decline in the gold price during the year, management recorded a significant impairment of the carrying value of the Group's exploration and evaluation assets, as several of these were no longer likely to be progressed to development. The assessment of each asset's future prospectivity requires significant judgement.	We: – performed detailed testing on the exploration and evaluation expenditure capitalised during the period and reviewed the licence conditions for any potential breaches; – held discussions with members of the Group's Strategic Committee, and with local management responsible for directing exploration activities to corroborate the current activities and future intentions for the significant exploration projects described in notes 3.2, 6 and 13; and – discussed the Group's plans for specific projects with the Audit Committee. Where an asset has been impaired we have challenged management on the events that led to the impairment, specifically in relation to future gold prices and the judgements surrounding the recoverability of the carrying values.
Revenue	The Group entered into a number of forward sales contracts which it designated as cash flow hedges. The accounting for these derivative financial instruments and documentation requirements in order for these transactions to qualify as hedges is complex. In addition ISA (UK and Ireland) 240 requires us to presume that there are risks of fraud in revenue recognition.	We: – reviewed the hedge documentation and contract terms to confirm the timing of revenue recognition, and used financial instrument specialists to assess the accounting for these derivative financial instruments; – assessed whether the revenue recognition policies adopted complied with IFRS; – confirmed the sales terms with the counterparty to the significant transactions at Irgiredmet; – substantively tested the gold sales made by confirming the quantities delivered with the customers and considered cut off by checking the revenue recorded close to the year end was in the correct period; and – performed analytical procedures considering the relationship between production, recovery and sales.

The Audit Committee's consideration of these risks is set out on page 83.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be US$15 million, which is below 5% of the Group's underlying EBITDA, and below 2% of equity.

We use underlying EBITDA because it is used by investors in mining companies as a key performance measure of cash generation and hence the Group's ability to provide returns to the providers of capital.

Our audit work at the operating locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality, and were not more than $11 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$300,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

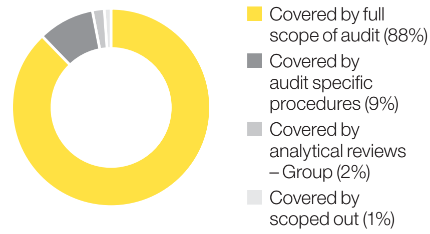
Our Group audit scope focused primarily on the operating locations, being the four operating mines, the Omchak alluvial operations, and the Irgiredmet and Kapstroi service entities together with twenty-four exploration entities. All of these operating locations were subject to a full audit, whilst the exploration entities were subject to specific procedures, primarily testing the capitalised spend on exploration activities and assessing for impairment. In addition, IRC Limited was the subject of a full scope audit. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations.

These operating locations represent the principal business units within the Group's reportable segments and account for 88% of the Group's total assets, 94% of the Group's inventory, 95% of the Group's revenue and 96% of the Group's underlying EBITDA. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

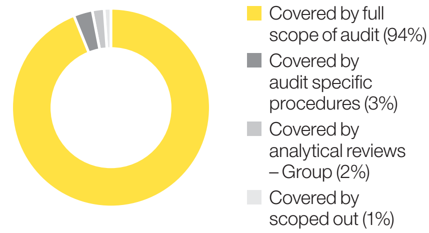
The Group audit team continued to follow a program of planned visits that was designed so that senior members of the Group team, together with our independent Deloitte mining specialists, visited each of the operating gold mines and the Group's offices in Moscow and Blagoveschensk where the Group audit scope was focused. Senior members of the Deloitte Hong Kong component audit team visited the Group's iron ore development assets as part of their audit of IRC Limited, which is separately listed on the Hong Kong Exchange. The Group audit team discussed the results of these visits as part of the process of understanding the risk assessment completed by Deloitte Hong Kong and reviewed the findings of their work.

The senior members of the Group audit team, including the Senior Statutory auditor, met regularly throughout the year with senior members of management in London.

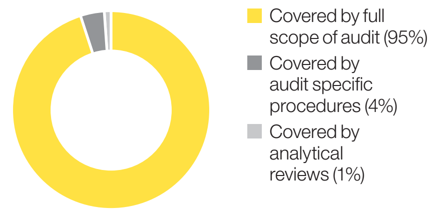
Total assets



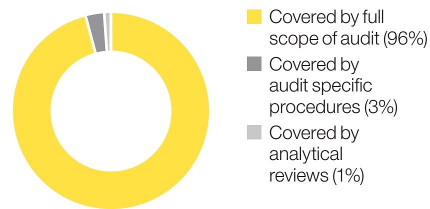
Inventory



Revenue



Underlying EBITDA



Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2013

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 Strategic Report and 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
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors' Remuneration Report. We have nothing to report arising from these matters or our review.

Corporate Governance Statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with 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.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Douglas King, FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom
28 April 2014

Financial statements

In this section

Consolidated Income Statement

For the year ended 31 December 2013

		2013			2012 Restated [a]		
	note	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
Continuing operations							
Group revenue	5	1,199,784	–	1,199,784	1,235,488	–	1,235,488
Operating expenses	6	(1,143,407)	(523,366)	(1,666,773)	(983,626)	(126,402)	(1,110,028)
		56,377	(523,366)	(466,989)	251,862	(126,402)	125,460
Share of results of associates		(711)	–	(711)	(81)	–	(81)
Operating profit/(loss)		55,666	(523,366)	(467,700)	251,781	(126,402)	125,379
Investment income	9	888	–	888	1,709	–	1,709
Interest expense	9	(75,268)	–	(75,268)	(73,227)	–	(73,227)
Other finance gains/(losses)	9	–	19,365	19,365	(13,581)	–	(13,581)
(Loss)/profit before taxation		(18,714)	(504,001)	(522,715)	166,682	(126,402)	40,280
Taxation	10	(52,251)	61,118	8,867	(47,956)	8,845	(39,111)
(Loss)/profit for the period from continuing operations		(70,965)	(442,883)	(513,848)	118,726	(117,557)	1,169
Discontinued operations							
Loss for the period from discontinued operations	27	(18,936)	(180,439)	(199,375)	(26,273)	(218,844)	(245,117)
(Loss)/profit for the period		(89,901)	(623,322)	(713,223)	92,453	(336,401)	(243,948)
Attributable to:							
Equity shareholders of Petropavlovsk PLC		(78,492)	(532,218)	(610,710)	98,771	(258,429)	(159,658)
Continuing operations		(67,978)	(441,066)	(509,044)	116,926	(117,557)	(631)
Discontinued operations		(10,514)	(91,152)	(101,666)	(18,155)	(140,872)	(159,027)
Non-controlling interests		(11,409)	(91,104)	(102,513)	(6,318)	(77,972)	(84,290)
Continuing operations		(2,987)	(1,817)	(4,804)	1,800	–	1,800
Discontinued operations		(8,422)	(89,287)	(97,709)	(8,118)	(77,972)	(86,090)
Earnings/(loss) per share							
Basic (loss)/earnings per share	11						
From continuing operations		(US$0.34)	(US$2.25)	(US$2.59)	US$0.60	(US$0.60)	US$0.00
From discontinued operations		(US$0.06)	(US$0.46)	(US$0.52)	(US$0.09)	(US$0.72)	(US$0.81)
		(US$0.40)	(US$2.71)	(US$3.11)	US$0.51	(US$1.32)	(US$0.81)
Diluted (loss)/earnings per share	11						
From continuing operations		(US$0.34)	(US$2.25)	(US$2.59)	US$0.60	(US$0.60)	US$0.00
From discontinued operations		(US$0.06)	(US$0.46)	(US$0.52)	(US$0.09)	(US$0.72)	(US$0.81)
		(US$0.40)	(US$2.71)	(US$3.11)	US$0.51	(US$1.32)	(US$0.81)

(a) Note 2.1.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 US$'000	2012 Restated [a] US$'000
Loss for the period	(713,223)	(243,948)
Items that may be reclassified subsequently to profit or loss:		
Revaluation of available-for-sale investments	(130)	(298)
Exchange differences on translating foreign operations	(4,688)	3,516
Changes in fair value of cash flow hedges	62,839	–
Deferred taxation thereon	(12,569)	–
Other comprehensive income for the period net of tax	45,452	3,218
Total comprehensive expense for the period	(667,771)	(240,730)
Attributable to:		
Equity shareholders of Petropavlovsk PLC	(565,333)	(156,729)
Non-controlling interests	(102,438)	(84,001)
	(667,771)	(240,730)
Total comprehensive expense for the period attributable to equity shareholders of Petropavlovsk PLC arises from:		
Continuing operations	(462,816)	1,431
Discontinued operations	(102,517)	(158,160)
	(565,333)	(156,729)

(a) Note 2.1.

Consolidated Balance Sheet

At 31 December 2013

	note	2013 US$'000	2012 US$'000
Assets			
Non-current assets			
Goodwill		–	21,675
Exploration and evaluation assets	13	116,008	189,555
Property, plant and equipment	14	1,171,962	1,606,466
Prepayments for property, plant and equipment		26,376	20,588
Investments in associates		7,938	8,246
Available-for-sale investments		124	255
Inventories	15	34,834	66,204
Other non-current assets		412	904
Deferred tax assets	21	346	1,373
		1,358,000	1,915,266
Current assets			
Inventories	15	259,915	345,992
Trade and other receivables	16	106,748	189,261
Derivative financial instruments	18	62,838	–
Cash and cash equivalents	17	170,595	159,226
		600,096	694,479
Assets of disposal group classified as held for sale	27	684,987	717,955
		1,285,083	1,412,434
Total assets		2,643,083	3,327,700
Liabilities			
Current liabilities			
Trade and other payables	19	(98,893)	(145,798)
Current income tax payable		(9,830)	(12,365)
Borrowings	20	(158,495)	(83,789)
		(267,218)	(241,952)
Liabilities of disposal group associated with assets classified as held for sale	27	(228,946)	(179,639)
		(496,164)	(421,591)
Net current assets		788,919	990,843
Non-current liabilities			
Borrowings	20	(960,517)	(1,138,732)
Deferred tax liabilities	21	(37,896)	(77,286)
Provision for close down and restoration costs	22	(36,169)	(33,978)
		(1,034,582)	(1,249,996)
Total liabilities		(1,530,746)	(1,671,587)
Net assets		1,112,337	1,656,113
Equity			
Share capital	23	3,041	2,891
Share premium		376,991	377,140
Merger reserve		19,265	130,011
Own shares	24	(8,925)	(10,196)
Hedging reserve		49,807	–
Convertible bond reserve	20	48,235	59,032
Share-based payments reserve		11,096	24,015
Other reserves		(89)	4,341
Retained earnings		360,999	853,619
Equity attributable to the shareholders of Petropavlovsk PLC		860,420	1,440,853
Non-controlling interests		251,917	215,260
Total equity		1,112,337	1,656,113

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 28 April 2014 and signed on their behalf by:

Peter Hambro
Director

Andrey Maruta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	note	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Own shares US$'000	Convertible bonds reserve US$'000	Share based payments reserve US$'000	Hedging reserve US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
		Total attributable to equity holders of Petropavlovsk PLC											
Balance at 1 January 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 for the period		–	–	–	–	–	–	–	2,929	(159,658)	(156,729)	(84,001)	(240,730)
Loss for the period		–	–	–	–	–	–	–	–	(159,658)	(159,658)	(84,290)	(243,948)
Other comprehensive income		–	–	–	–	–	–	–	2,929	–	2,929	289	3,218
Dividends		–	–	–	–	–	–	–	–	(35,022)	(35,022)	–	(35,022)
Share based payments		–	–	–	–	–	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 1 January 2013		2,891	377,140	130,011	(10,196)	59,032	24,015	–	4,341	853,619	1,440,853	215,260	1,656,113
Total comprehensive income for the period		–	–	–	–	–	–	49,807	(4,430)	(610,710)	(565,333)	(102,438)	(667,771)
Loss for the period		–	–	–	–	–	–	–	–	(610,710)	(610,710)	(102,513)	(713,223)
Other comprehensive income/(expense)		–	–	–	–	–	–	49,807	(4,430)	–	45,377	75	45,452
Dividends	12	–	–	–	–	–	–	–	–	(5,774)	(5,774)	–	(5,774)
Bonus share issue		150	(149)	–	(1)	–	–	–	–	–	–	–	–
Share based payments	29	–	–	–	–	–	5,807	–	–	1,406	7,213	–	7,213
Vesting of awards within Petropavlovsk PLC LTIP		–	–	–	1,272	–	(18,726)	–	–	17,454	–	–	–
Issue of ordinary shares by subsidiary		–	–	–	–	–	–	–	–	(16,533)	(16,533)	142,619	126,086
Buy-back of Convertible Bonds		–	–	–	–	(10,797)	–	–	–	10,797	–	–	–
Other transaction with non- controlling interests		–	–	–	–	–	–	–	–	(6)	(6)	(3,524)	(3,530)
Transfer to retained earnings [(a)]		–	–	(110,746)	–	–	–	–	–	110,746	–	–	–
Balance at 31 December 2013		3,041	376,991	19,265	(8,925)	48,235	11,096	49,807	(89)	360,999	860,420	251,917	1,112,337

(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 27).

Consolidated Cash Flow Statement

For the year ended 31 December 2013

	note	2013 US$'000	2012 US$'000
Cash flows from operating activities			
Cash generated from operations	25	407,369	410,236
Interest paid		(85,479)	(71,329)
Income tax paid		(40,267)	(67,003)
Net cash from operating activities		281,623	271,904
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired		–	920
Proceeds from disposal of subsidiaries, net of liabilities settled		49,210	7,725
Proceeds from disposal of the Group's interests in joint ventures and available–for-sale investments		–	508
Purchase of property, plant and equipment		(301,299)	(549,960)
Exploration expenditure		(47,281)	(70,915)
Proceeds from disposal of property, plant and equipment		2,588	1,968
Loans granted		(453)	(304)
Repayment of amounts loaned to other parties		2,746	87
Interest received		1,910	2,701
Net cash used in investing activities		(292,579)	(607,270)
Cash flows from financing activities			
Proceeds from issue of ordinary shares by IRC, net of transaction costs		126,887	–
Proceeds from borrowings		166,319	639,853
Repayments of borrowings		(182,458)	(308,681)
Debt transaction costs paid in connection with ICBC facility		(1,031)	(1,500)
Dividends paid to shareholders of Petropavlovsk PLC		(5,774)	(35,213)
Dividends paid to non-controlling interests		(5)	(13)
Net cash from financing activities		103,938	294,446
Net increase/(decrease) in cash and cash equivalents in the period		92,982	(40,920)
Effect of exchange rates on cash and cash equivalents		(7,507)	4,626
Cash and cash equivalents at beginning of period	17	159,226	213,556
Cash and cash equivalents re-classified as assets held for sale at beginning of the period	27	18,036	–
Cash and cash equivalents re-classified as assets held for sale at end of the period	27	(92,142)	(18,036)
Cash and cash equivalents at end of period	17	170,595	159,226

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

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's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 69 of this Annual Report. The financial position of the Group, its cash flows and liquidity position are described in the Chief Financial Officer's Statement on pages 60 to 69 of this Annual Report. In addition, note 31 to these consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As described in the Chairman's Statement on pages 4 and 5 of this Annual Report, following the significant decline in the gold price over the year and notwithstanding subsequent revision of the Group's plans, in the absence of refinancing the Group's forecasts show breaches of certain covenants in its banking facilities at 31 December 2014. In addition the US$310.5 million outstanding Convertible Bonds are due for repayment in February 2015 and the Group does not currently have sufficient committed facilities or available funds to refinance this debt.

As explained on page 5 of this Annual Report, the Group has developed a refinancing plan which includes negotiating with the Group's senior lenders and ICBC (on relaxation of the covenants in its banking facilities) and refinancing its Convertible Bonds. Based on negotiations conducted to date, the Directors have a reasonable expectation that the Group will receive sufficient relaxation of covenants in its banking facilities and refinance its Convertible Bonds maturing in February 2015.

The Directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the refinancing will be concluded successfully and the Group will therefore have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2013 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Comparatives

Following presentation of IRC as a discontinued operation (note 27) and changes in the composition of the Group's reportable segments (note 4), comparative information for the year ended 31 December 2012 has been represented. Following issue of shares to the Company Shareholders during the year ended 31 December 2013 as part of the dividend considerations (note 12 and 23), earnings per share for the year ended 31 December 2012 have been recalculated using the new number of shares (note 11).

2.2. Adoption of new and revised standards and interpretations

New and revised standards and interpretations adopted for the current reporting period

New and revised Standards and Interpretations that are applicable to the Group and have been adopted in the current year are set out below. Their adoption has not had any significant impact on the amounts reported in these consolidated financial statements but may impact the accounting for future transactions and arrangements.

- IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine': The Group's existing accounting policy for stripping costs (note 2.16) was in line with the requirements included in IFRIC 20 and, as such, adoption of this interpretation did not have any significant impact on the amounts reported in these consolidated financial statements.
- IAS 1 'Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income' (Amendment): The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially subsequently reclassifiable to profit or loss. Please refer to the consolidated statement of comprehensive income for relevant disclosures.
- IFRS 7 'Financial Instruments: Disclosures' (Amendment): IFRS 7 has been amended to require disclosure of information about rights of set-off and related arrangements in regard to financial assets and liabilities. The application of the amended standard had no impact on these consolidated financial statements.

2. Significant accounting policies continued

- IFRS 13 'Fair Value Measurement': IFRS 13 aims to improve consistency and establish a single framework for measuring fair value when such measurements are required or permitted by other IFRSs. The application of the standard has not had any significant impact on fair value measurements carried out by the Group and the amounts reported in these consolidated financial statements. IFRS 13 also requires certain additional disclosures to assist users to understand the valuation techniques and inputs used to develop fair value measurements which have been reflected in the relevant notes to these consolidated financial statements.
- IAS 19 'Employee Benefits' (Revised): IAS 19 (Revised) includes a number of amendments to the accounting for defined benefit plans and related disclosures. The application of the standard had no impact on these consolidated financial statements.
- Annual Improvements 2011.

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2014 and not early adopted
At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

	Effective for annual periods beginning on or after
IFRS 10 'Consolidated Financial Statements' replaces previous guidance on control and consolidation in IAS 27 'Consolidated and Separate Financial Statements' and SIC 12 'Consolidation – Special Purpose Entities' and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.	1 January 2014
IFRS 11 'Joint Arrangements' focuses on rights and obligations of the parties to the arrangement rather than its legal form. Proportional consolidation of joint arrangements is no longer permitted.	1 January 2014
IFRS 12 'Disclosure of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.	1 January 2014
Amendments to IAS 36 'Impairment of Assets' – 'Recoverable Amount Disclosures for Non-Financial Assets' revise disclosure requirements related to the measurement of the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.	1 January 2014
Amendments to IAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'.	1 January 2014
Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'.	1 January 2014
Amendments to IFRS 10, IFRS 12 and IAS 27 'Separate Financial Statements: Investment Entities'.	1 January 2014
IFRIC 21 'Levies' provides guidance on when to recognise a liability for a levy imposed by a government.	1 January 2014
Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans – Employee Contributions provides additional guidance on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan.	1 January 2014
IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities.	Effective date has been removed (previously 1 January 2015)

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 consolidated financial statements, except for IFRS 9 which impact is being evaluated.

2.3. 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.

2.4. Basis of consolidation
These consolidated financial statements consist of the financial statements of the Company and the entities controlled by the Company (its subsidiaries) as at the balance sheet date.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's dentifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. The recognised income and expense are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.5. Business combinations
The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for each acquisition is measured at the aggregate of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Where applicable, the consideration transferred includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, on an acquisition-by-acquisition basis.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired 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.

2.6. Non-controlling interests
The Group treats transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying 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.

2.7. Acquisition of assets
Frequently, the acquisition of mining licences is effected through a non-operating corporate structure. As these structures do not represent a business, it is considered that the transactions do not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are recognised at cost.

Where the Group has full control but does not own 100% of the assets, then non-controlling interests are recognised at an equivalent amount based on the Group's cost, the assets continue to be carried at cost and changes in those values are recognised in equity.

2.8. Interests in joint ventures
A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each 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.

2.9. Investments in associates
An associate is an entity over which the Group is in a position to exercise significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for the impairment.

2. Significant accounting policies continued

2.10. 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.

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.

2.11. 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.

2.12. 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.

2.13. 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

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 2013	Average year ended 31 December 2013	As at 31 December 2012	Average year ended 31 December 2012
GB Pounds Sterling (GBP : US$)	0.60	0.64	0.62	0.63
Russian Rouble (RUR : US$)	32.73	31.85	30.37	31.07

– Costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made.

Exploration and evaluation expenditure capitalised and mining rights within intangible assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

2.14. 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 2.15.

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.

2.15. 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.

2.16. 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.

2.17. 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.

2.18. 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.

2.19. 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.

2.20. 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 represents 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 2.16.

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

2.21. 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.

2.22. 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.

2.23. 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.

2.24. 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.

2.25. 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 29.

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.

2.26. 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 29. 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 (the JORC Code), adjusted to conform with the mining activity to be undertaken under the Group mining plan. The JORC Code requires the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

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 purposes of impairment reviews 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 set out in note 6.

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.

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 a 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 2013 and 2012 as well as a discontinued operation in the income statement (notes 27 and 34). 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$0.78 as at 31 December 2013 (31 December 2012: HK$1.17) which the Directors consider to be the best measure of fair value. Assuming total investment completion occurs, the Group's interest in the share capital of IRC Limited would be diluted from 48.7% held at 31 December 2013 (note 36) to 40.49% 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

As a result of the separate disclosure of IRC as a discontinued operation from 1 January 2013 (note 27), the Group re-considered its reportable segments and, after applying the aggregation criteria and quantitative thresholds, the Group's reportable segments under IFRS 8 were determined to be as set out below:

- Pokrovskiy, Pioneer, Malomir and Albyn hard-rock gold mines which are engaged in gold and silver production as well as field exploration and mine development.
- Alluvial operations segment comprising various alluvial gold operations which are engaged in gold production and field exploration.
- Corporate and Other segment comprising corporate administration, in-house geological exploration and construction and engineering expertise, engineering and scientific operations and other supporting in-house functions as well as various gold projects and other activities that do not meet the reportable segment criteria.

Reportable operating segments are based on the internal reports provided to the Chief Operating Decision Maker ('CODM') to evaluate segment performance, decide how to allocate resources and make other operating decisions and reflect the way the Group's businesses are managed and reported.

The key changes in the basis of segmentation as reported in the consolidated financial statements for the year ended 31 December 2012 are set out below:

- Pokrovskiy, Pioneer, Malomir and Albyn hard-rock mines and alluvial operations were previously aggregated and reported within 'Precious metals' segment.
- The results of the IRC operations are reported as a discontinued operation and disclosed separately in note 27 under 'Asset held for sale and discontinued operation – IRC'.
- Central administration expenses reported separately have been included in the 'Corporate and Other' segment.
- Various gold projects that do not meet the reportable segment criteria previously reported within 'Precious metals' segment have been moved to the 'Corporate and Other' segment.

The comparative information for the year ended 31 December 2012 has been restated to conform to the current period presentation.

4. Segment information continued

2013	Pokrovskiy US$'000	Pioneer US$'000	Malomir US$'000	Albyn US$'000	Alluvial operations US$'000	Corporate and other US$'000	Consolidated US$'000
Revenue							
Gold [(a)]	138,587	487,367	170,030	197,518	125,216	–	1,118,718
Silver	616	2,335	318	241	268	–	3,778
Other external revenue	–	–	–	–	–	77,288	77,288
Inter-segment revenue	–	–	4,326	–	–	302,126	306,452
Intra-group eliminations	–	–	(4,326)	–	–	(302,126)	(306,452)
Total Group revenue from external customers	139,203	489,702	170,348	197,759	125,484	77,288	1,199,784
Operating expenses and income							
Operating cash costs	(108,067)	(283,459)	(116,351)	(131,554)	(112,179)	(73,259)	(824,869)
Depreciation	(22,800)	(74,543)	(38,054)	(76,571)	(10,928)	(1,908)	(224,804)
Central administration expenses	–	–	–	–	–	(45,819)	(45,819)
Impairment of mining assets and goodwill	(22,705)	(88,926)	(155,946)	(17,595)	–	(126,113)	(411,285)
Impairment of exploration and evaluation assets	–	–	–	–	(215)	(94,693)	(94,908)
Impairment of ore stockpiles	(7,712)	(36,260)	(9,171)	(2,430)	–	–	(55,573)
(Loss)/gain on disposal of subsidiaries	–	–	–	–	(4,205)	459	(3,746)
Total operating expenses and income	(161,284)	(483,188)	(319,522)	(228,150)	(127,527)	(341,333)	(1,661,004)
Share of results of associates	–	–	–	–	–	(711)	(711)
Segment result	(22,081)	6,514	(149,174)	(30,391)	(2,043)	(264,756)	(461,931)
Before exceptional items	3,962	125,471	16,666	(11,745)	2,168	(75,087)	61,435
Exceptional items [(b)]	(26,043)	(118,957)	(165,840)	(18,646)	(4,211)	(189,669)	(523,366)
Foreign exchange losses							(5,769)
Operating loss							(467,700)
Investment income							888
Interest expense							(75,268)
Other finance gains							19,365
Taxation							8,867
Loss for the period from continuing operations							(513,848)
Segment Assets	122,290	616,504	464,344	471,302	31,184	204,432	1,910,056
Segment Liabilities	(10,415)	(30,904)	(17,200)	(20,853)	(1,306)	(64,214)	(144,892)
Goodwill [(c)]							–
Deferred tax – net							(37,550)
Unallocated cash							46,661
Loans given							1,033
Borrowings							(1,119,012)
Net assets of disposal group classified as held for sale							456,041
Net assets							1,112,337
Other segment information							
Additions to non-current assets:							
Exploration and evaluation expenditure capitalised within intangible assets	1,881	1,357	4,770	15,138	947	5,934	30,027
Other additions to intangible assets	–	–	404	1,273	1,231	63	2,971
Capital expenditure	10,583	61,177	47,928	38,907	5,438	18,546	182,579
Other items capitalised	(656)	12,899	5,034	3,890	–	–	21,167
Average number of employees	1,260	1,943	1,225	1,252	998	4,837	11,515

(a) Including US$107.7 million effect of the cash flow hedge.

(b) Note 6.

(c) In making the assessment for impairment, goodwill is allocated to the group of cash generating units likely to benefit from acquisition-related synergies.

2012 Restated	Pokrovskiy US$'000	Pioneer US$'000	Malomir US$'000	Albyn US$'000	Alluvial operations US$'000	Corporate and other US$'000	Consolidated US$'000
Revenue							
Gold	145,618	560,240	172,997	141,178	153,817	135	1,173,985
Silver	1,261	4,850	697	211	734	17	7,770
Other external revenue	–	–	–	–	–	53,733	53,733
Inter-segment revenue	–	–	1,851	–	1,429	425,726	429,006
Intra-group eliminations	–	–	(1,851)	–	(1,429)	(425,726)	(429,006)
Total Group revenue from external customers	146,879	565,090	173,694	141,389	154,551	53,885	1,235,488
Operating expenses and income							
Operating cash costs	(69,177)	(250,264)	(96,303)	(83,145)	(121,960)	(53,821)	(674,670)
Depreciation	(35,819)	(70,603)	(47,751)	(43,955)	(12,303)	(4,944)	(215,375)
Central administration expenses	–	–	–	–	–	(60,733)	(60,733)
Impairment of mining assets	–	–	–	–	–	(51,423)	(51,423)
Impairment of exploration and evaluation assets	–	–	–	–	–	(58,091)	(58,091)
Impairment of ore stockpiles	(4,936)	(24,756)	–	–	–	–	(29,692)
Gain/(loss) on disposal of subsidiaries	–	–	–	–	2,446	(29,383)	(26,937)
Gain on disposal of Group's interest in joint ventures and available-for-sale investments	–	–	–	–	–	498	498
Total operating expenses and income	(109,932)	(345,623)	(144,054)	(127,100)	(131,817)	(257,897)	(1,116,423)
Share of results of associates	–	–	–	–	–	(81)	(81)
Segment result	36,947	219,467	29,640	14,289	22,734	(204,093)	118,984
Before exceptional items	36,947	219,467	29,640	14,289	20,288	(75,245)	245,386
Exceptional items [(d)]	–	–	–	–	2,446	(128,848)	(126,402)
Foreign exchange gains							6,395
Operating profit							125,379
Investment income							1,709
Interest expense							(73,227)
Other finance losses							(13,581)
Taxation							(39,111)
Profit for the period from continuing operations							1,169
Segment Assets	167,047	689,422	643,562	546,459	103,852	420,920	2,571,262
Segment Liabilities	(19,266)	(46,639)	(22,587)	(22,899)	(3,809)	(76,941)	(192,141)
Goodwill [(e)]							21,675
Deferred tax – net							(75,913)
Unallocated cash							13,574
Loans given							1,861
Borrowings							(1,222,521)
Net assets of disposal group classified as held for sale							538,316
Net assets							1,656,113
Other segment information							
Additions to non-current assets:							
Exploration and evaluation expenditure capitalised within intangible assets	2,363	1,338	833	16,361	463	20,248	41,606
Other additions to intangible assets	–	–	46	–	2,311	1,562	3,919
Capital expenditure	13,811	153,264	142,771	195,664	16,164	37,776	559,450
Other items capitalised	209	6,228	3,893	2,462	–	711	13,503
Average number of employees	1,524	2,210	1,407	1,058	1,099	5,367	12,665

(d) Note 6.

(e) In making the assessment for impairment, goodwill is allocated to the group of cash generating units likely to benefit from acquisition-related synergies.

4. Segment information continued

Entity wide disclosures

Revenue by geographical location [a]

	2013 US$'000	2012 Restated US$'000
Russia and CIS	1,199,035	1,235,213
Other	749	275
	1,199,784	1,235,488

(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]

	2013 US$'000	2012 Restated US$'000
Russia	1,346,554	1,893,284
Other	10,564	19,450
	1,357,118	1,912,734

((b) Excluding financial instruments and deferred tax assets.

Information about major customers
During the years ended 31 December 2013 and 2012, the Group generated revenues from the sales of gold to Russian banks for Russian domestic sales of gold. Included in gold sales revenue for the year ended 31 December 2013 are revenues of US$1,084 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$625 million to Sberbank of Russia and US$459 million to VTB (2012: 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 and US$551 million to VTB). 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

Continuing operations

	2013 US$'000	2012 Restated US$'000
Sales of goods	1,177,901	1,214,034
Rendering of services	20,410	18,886
Rental income	1,473	2,568
	1,199,784	1,235,488
Investment income	888	1,709
	1,200,672	1,237,197

Discontinued operations

	2013 US$'000	2012 Restated US$'000
Sales of goods	151,939	128,466
Rendering of services	8,915	11,221
	160,854	139,687
Investment income	975	412
	161,829	140,099

6. Operating expenses and income

	2013			2012 Restated		
	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 [a]	1,049,673	–	1,049,673	890,045	–	890,045
Impairment of exploration and evaluation assets [a]	31,352	63,556	94,908	10,049	48,042	58,091
Impairment of mining assets and goodwill [a]	–	411,285	411,285	–	51,423	51,423
Impairment of ore stockpiles [a]	11,259	44,314	55,573	29,692	–	29,692
Central administration expenses [a]	45,819	–	45,819	60,733	–	60,733
Foreign exchange losses/(gains)	5,769	–	5,769	(6,395)	–	(6,395)
(Gain)/loss on disposal of subsidiaries [b]	(465)	4,211	3,746	–	26,937	26,937
Gain on disposal of Group's interest in joint ventures and available-for-sale investments	–	–	–	(498)	–	(498)
	1,143,407	523,366	1,666,773	983,626	126,402	1,110,028

(a) As set out below.
(b) Note 28.

Net operating expenses

	2013 US$'000	2012 Restated US$'000
Depreciation	224,804	215,375
Staff costs	160,577	174,337
Materials	196,225	175,537
Fuel	110,094	103,671
External services	67,551	109,277
Mining tax	61,602	69,782
Electricity	49,425	43,038
Smelting and transportation costs	5,732	5,838
Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production	68,056	(108,498)
Taxes other than income	8,619	16,156
Insurance	9,340	6,121
Professional fees	1,090	1,697
Office costs	1,122	768
Operating lease rentals	1,316	1,228
Business travel expenses	2,985	3,577
Provision for impairment of trade and other receivables	(425)	1,715
Bank charges	1,444	2,308
Goods for resale	42,835	23,723
Other operating expenses	46,746	45,495
Other income	(9,465)	(1,100)
	1,049,673	890,045

6. Operating expenses and income continued

Central administration expenses

	2013			2012 Restated		
	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	26,127	–	26,127	36,779	–	36,779
Professional fees	3,363	–	3,363	3,482	–	3,482
Insurance	1,200	–	1,200	1,080	–	1,080
Operating lease rentals	2,208	–	2,208	2,066	–	2,066
Business travel expenses	2,137	–	2,137	2,833	–	2,833
Office costs	962	–	962	1,238	–	1,238
Other	9,822	–	9,822	13,255	–	13,255
	45,819	–	45,819	60,733	–	60,733

Impairment charges

Impairment of mining assets and goodwill

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.

During the first half of 2013, the gold price declined significantly and remained at those lower levels which also resulted in the revised long-term gold price outlook. In response to the declining gold price environment, the Group performed an impairment review of the tangible assets and goodwill attributable to the gold mining projects and the supporting in-house service companies.

The Group recorded impairment charges to the extent that recoverable amounts no longer supported the relevant carrying values of assets on the balance sheet as at 30 June 2013. In the second half of 2013, the Group undertook certain cost optimisation measures in response to the declining gold price environment and increased its non-refractory mineable reserves. As a result of the aforementioned measures, no further impairment was required as at 31 December 2013.

Impairment charges recognised against the tangible assets and goodwill attributable to the gold mining projects and the supporting in-house service companies during 2013 are set out below:

	Impairment of goodwill US$'000	Impairment of property, plant and equipment US$'000	Pre-tax impairment charge US$'000	Taxation US$'000	Post-tax impairment charge US$'000
Pokrovskiy	–	22,705	22,705	(4,541)	18,164
Pioneer	–	88,926	88,926	(17,785)	71,141
Malomir	–	155,946	155,946	(17,876)	138,070
Albyn	–	17,595	17,595	(3,519)	14,076
In-house service companies	21,675	104,438	126,113	(7,215)	118,898
	21,675	389,610	411,285	(50,936)	360,349

The forecast future cash flows are based on the Group's current mining plan and reflect certain in-process cost optimisation measures implemented in response to the declining gold price environment. The other key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out below:

	Year ended 31 December 2013	Year ended 31 December 2012
Long-term gold price	US$1,250/oz	US$1,680/oz
Discount rate (a)	9.5%	8.6%
RUS/US$ exchange rate	RUR33.0/US$	RUR31.5/US$

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 12.5% (2012: 11.5%)

Impairment of exploration and evaluation assets

The Group performed a review of its exploration and evaluation assets and recorded the following impairment charges:

- An exceptional US$62.2 million post-tax impairment charge (being US$63.6 million gross impairment charge net of reversal of associated deferred tax liabilities) was recorded against the Tokur assets which are awaiting development of a full-scale mining operation and which has been put on hold to minimise Group's CAPEX in the current gold price environment; and
- A further non-exceptional US$31.4million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various licence areas, primarily located in the Amur region.

Impairment of ore stockpiles

The Group assessed the recoverability of the carrying value of ore stockpiles and recorded an impairment charges as set out below:

	Non-exceptional items			Exceptional items			Total		
	Pre-tax impairment charge US$'000	Taxation US$'000	Post-tax impairment charge US$'000	Pre-tax impairment charge US$'000	Taxation US$'000	Post-tax impairment charge US$'000	Pre-tax impairment charge US$'000	Taxation US$'000	Post-tax impairment charge US$'000
Pokrovskiy	4,374	(875)	3,499	3,338	(668)	2,670	7,712	(1,543)	6,169
Pioneer	6,229	(1,246)	4,983	30,031	(6,006)	24,025	36,260	(7,252)	29,008
Malomir	(723)	145	(578)	9,894	(1,979)	7,915	9,171	(1,834)	7,337
Albyn	1,379	(276)	1,103	1,051	(210)	841	2,430	(486)	1,944
	11,259	(2,252)	9,007	44,314	(8,863)	35,451	55,573	(11,115)	44,458

The US$44.3 million pre-tax impairment of stockpiles recognised during the first half of 2013 was considered by the Directors to be exceptional as it resulted from the sudden and significant decline in the gold price and relates to ore stockpiles which were substantially mined in prior periods. A further US$11.3 million pre-tax impairment of stockpiles recognised in the second half of 2013 primarily related to this year's mining activity and therefore was considered by the Directors to be non-exceptional.

7. Auditor's remuneration

The Group, including its overseas subsidiaries, obtained the following services from the Company's auditor and their associates:

	2013 US$'000	2012 US$'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	572	493
Fees payable to the Company's auditor and their 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	393	383
For the audit of subsidiary statutory accounts pursuant to legislation [(a)]	632	616
	1,597	1,492
Non-audit fees		
Other services pursuant to legislation – interim review [(b)]	410	351
Fees for reporting accountants services [(c)]	211	570
Tax services	–	39
Other services	22	65
	643	1,025

(a) Including the statutory audit of subsidiaries in the UK and Cyprus as well as US$541 thousand (2012: US$514 thousand) payable for the audit of the consolidated financial statements of IRC Limited.

(b) Including US$139 thousand (2012: US$133 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 27).

8. Staff costs

Continuing operations

	2013 US$'000	2012 Restated US$'000
Wages and salaries	146,168	165,153
Social security costs	36,331	41,218
Pension costs	327	383
Share-based compensation	3,878	4,362
	186,704	211,116
Average number of employees	11,515	12,665

Discontinued operations

	2013 US$'000	2012 Restated US$'000
Wages and salaries	42,613	44,016
Social security costs	10,297	10,208
Pension costs	219	273
Share-based compensation	3,335	6,759
	56,464	61,256
Average number of employees	2,248	2,229

9. Financial income and expenses

	2013			2012 Restated		
	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	888	–	888	1,709	–	1,709
	888	–	888	1,709	–	1,709
Interest expense						
Interest on bank loans	(64,840)	–	(64,840)	(54,754)	–	(54,754)
Interest on Convertible Bonds	(29,404)	–	(29,404)	(28,863)	–	(28,863)
	(94,244)	–	(94,244)	(83,617)	–	(83,617)
Interest capitalised	19,346	–	19,346	10,917	–	10,917
Unwinding of discount on environmental obligation	(370)	–	(370)	(527)	–	(527)
	(75,268)	–	(75,268)	(73,227)	–	(73,227)
Other finance gains/(losses)						
Gain on buy-back of Convertible Bonds [(a)]	–	19,365	19,365	–	–	–
Fair value losses on derivative financial instruments	–	–	–	(13,581)	–	(13,581)
	–	19,365	19,365	(13,581)	–	(13,581)

(a) Note 20.

10. Taxation

	2013			2012 Restated		
	Before exceptional items US$'000	Exceptional items [(a)] US$'000	Total US$'000	Before exceptional items US$'000	Exceptional items [(a)] US$'000	Total US$'000
Current tax						
UK current tax	–	–	–	223	–	223
Russian current tax	39,665	–	39,665	60,835	–	60,835
	39,665	–	39,665	61,058	–	61,058
Deferred tax						
Reversal and origination of timing differences	12,586	(61,118)	(48,532)	(13,102)	(8,845)	(21,947)
Total tax charge / (credit)	52,251	(61,118)	(8,867)	47,956	(8,845)	39,111

(a) Being reversal of associated deferred tax liabilities in connection with impairment charges (note 6).

The charge for the year can be reconciled to the profit per the income statement as follows:

	2013 US$'000	2012 Restated US$'000
(Loss)/profit before tax from continuing operations	(522,715)	40,280
Tax at the UK corporation tax rate of 23.25% (2012: 24.5%)	(121,531)	9,869
Effect of different tax rates of subsidiaries operating in other jurisdictions	13,180	(6,726)
Tax effect of share of results of joint ventures and associates	165	20
Tax effect of expenses that are not deductible for tax purposes	6,954	10,645
Tax effect of tax losses for which no deferred income tax asset was recognised	69,925	41,800
Income not subject to tax	(364)	(2,547)
Utilisation of previously unrecognised tax losses	(373)	(746)
Foreign exchange movements in respect of deductible temporary differences	23,816	(15,256)
Other adjustments	(639)	2,052
Tax expense for the period	(8,867)	39,111

11. Earnings per share

	2013			2012 Restated		
	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
(Loss)/profit for the period attributable to equity holders of Petropavlovsk PLC	(78,492)	(532,218)	(610,710)	98,771	(258,429)	(159,658)
From continuing operations	(67,978)	(441,066)	(509,044)	116,926	(117,557)	(631)
From discontinued operations	(10,514)	(91,152)	(101,666)	(18,155)	(140,872)	(159,027)
Interest expense on Convertible Bonds, net of tax	– (a)	–	– (a)	– (a)	–	– (a)
(Loss)/profit used to determine diluted earnings per share	(78,492)	(532,218)	(610,710)	98,771	(258,429)	(159,658)
From continuing operations	(67,978)	(441,066)	(509,044)	116,926	(117,557)	(631)
From discontinued operations	(10,514)	(91,152)	(101,666)	(18,155)	(140,872)	(159,027)
			No of shares			No of shares
Weighted average number of Ordinary Shares			196,415,932			196,296,373 (c)
Adjustments for dilutive potential Ordinary Shares:						
– assumed conversion of Convertible Bonds			– (a)			– (a)
– share options in issue			–			– (b)
Weighted average number of Ordinary Shares for diluted earnings per share			196,415,932			196,296,373
	Before exceptional items US$	Exceptional items US$	Total US$	Before exceptional items US$	Exceptional items US$	Total US$
Basic (loss)/earnings per share	(0.40)	(2.71)	(3.11)	0.51	(1.32)	(0.81)
From continuing operations	(0.34)	(2.25)	(2.59)	0.60	(0.60)	0.00
From discontinued operations	(0.06)	(0.46)	(0.52)	(0.09)	(0.72)	(0.81)
Diluted (loss)/earnings per share	(0.40)	(2.71)	(3.11)	0.51	(1.32)	(0.81)
From continuing operations	(0.34)	(2.25)	(2.59)	0.60	(0.60)	0.00
From discontinued operations	(0.06)	(0.46)	(0.52)	(0.09)	(0.72)	(0.81)

(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 29) were not included in the calculation of diluted earnings per share because they were anti-dilutive.

(c) Adjusted for 9,778,332 Ordinary Shares issued during the year ended 31 December 2013 (note 12 and 23).

As at 31 December 2013 and 2012, 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 (2012: anti-dilutive) and therefore was not included in the calculation of diluted earnings per share.

12. Dividends

	2013 US$'000	2012 US$'000
Final dividend for the year ended 31 December 2012 [(a)] of £0.02 per share paid on 26 July 2013	5,774	–
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
	5,774	35,022

(a) Comprising a cash payment of £0.02 per Ordinary Share together with an entitlement to new Ordinary Shares with an attributable value of £0.05 (note 23).

13. Exploration and evaluation assets

	Visokoe US$'000	Tokur US$'000	Flanks of Pokrovskiy US$'000	Flanks of Albyn US$'000	Other [(a)] US$'000	Total US$'000
At 1 January 2013	45,876	63,556	6,516	24,411	49,196	189,555
Additions	1,458	–	3,827	16,411	11,302	32,998
Disposal of subsidiary	–	–	–	–	(1,231)	(1,231)
Impairment (note 6)	–	(63,556)	–	–	(31,352)	(94,908)
Transfer to mining assets [(b)]	–	–	–	–	(11,197)	(11,197)
Reallocation and other transfers	–	–	–	–	791	791
At 31 December 2013	47,334	–	10,343	40,822	17,509	116,008

(a) Represent amounts capitalised in respect of a number of projects in Guyana, the Amur and other regions.
(b) Including US$7.1mln related to Burinda operations.

	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 [(c)] 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	–	–	–	–	–	–	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 27)	–	–	–	–	–	–	(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

(c) Represent amounts capitalised in respect of a number of projects in Guyana, the Amur and other regions.

14. 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 2012	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 exploration and evaluation assets (note 13)	–	683	–	–	683
Transfers from capital construction in progress (b)	–	288,621	12,631	(301,252)	–
Transfers from mine development	(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 27)	(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
Additions	377	60,469	4,018	117,715	182,579
Interest capitalised (note 9) (a)	–	–	–	19,346	19,346
Close down and restoration cost capitalised (note 22)	–	1,821	–	–	1,821
Transfers from exploration and evaluation assets (note 13)	–	11,197	–	–	11,197
Transfers from capital construction in progress (b)	–	126,651	16,058	(142,709)	–
Disposals	–	(5,050)	(6,206)	(113)	(11,369)
Disposal of subsidiaries	–	(44,291)	(2,881)	–	(47,172)
Reallocation and other transfers	(10)	263	(1,018)	(44)	(809)
Foreign exchange differences	–	–	(3,217)	–	(3,217)
At 31 December 2013	6,725	1,849,026	226,303	258,480	2,340,534
Accumulated depreciation and impairment					
At 1 January 2012	14,519	263,924	60,585	14,572	353,600
Charge for the period	4,699	215,312	24,397	–	244,408
Impairment (note 6)	20,910	39,888	331	2,568	63,697
Disposals	(268)	(5,914)	(4,623)	–	(10,805)
Disposal of subsidiaries	–	(587)	(712)	–	(1,299)
Transfer to assets classified as held for sale (note 27)	(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
Charge for the year	33	215,339	17,040	–	232,412
Impairment (note 6)	–	290,051	95,239	4,320	389,610
Disposals	–	(3,540)	(4,330)	–	(7,870)
Disposal of subsidiaries	–	(24,976)	(1,722)	–	(26,698)
Reallocation and other transfers	–	(108)	90	–	(18)
Foreign exchange differences	–	–	(556)	–	(556)
At 31 December 2013	5,711	974,065	181,908	6,888	1,168,572
Net book value					
At 31 December 2012 (c)	680	1,200,667	143,402	261,717	1,606,466
At 31 December 2013 (c)	1,014	874,961	44,395	251,592	1,171,962

(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 7.9% (2012: 7.2%).

(b) Being costs primarily associated with continuous development of Malomir, Albyn and Pioneer projects.

(c) Property, plant and equipment with a net book value of US$133.2 million (31 December 2012: US$232.7 million) have been pledged to secure borrowings of the Group.

15. Inventories

	2013 US$'000	2012 US$'000
Current		
Construction materials	16,089	20,931
Stores and spares	109,876	124,515
Ore in stockpiles [(a), (c)]	60,489	101,669
Work in progress	39,923	39,712
Deferred stripping costs	20,025	51,555
Bullion in process	1,979	2,534
Other	11,534	5,076
	259,915	345,992
Non-current		
Ore in stockpiles [(a), (b), (c)]	34,834	66,204
	34,834	66,204

(a) Note 6.

(b) Ore in stockpiles that is not planned to be processed within twelve months after the reporting period.

(c) As at 31 December 2013, ore in stockpiles include balances in the aggregate of US$90.8 million carried at net realisable value (2012: US$106.2 million).

16. Trade and other receivables

	2013 US$'000	2012 US$'000
Current		
VAT recoverable	57,687	101,441
Advances to suppliers	16,011	20,178
Trade receivables [(a)]	20,100	11,376
Consideration receivable for disposal of subsidiaries	–	24,284
Other debtors [(b)]	12,950	31,982
	106,748	189,261

(a) Net of provision for impairment of US$0.9 million (2012: US$0.8 million). Trade receivables are due for settlement between one and three months.

(b) Net of provision for impairment of US$5.1 million (2012: US$6.4 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.

17. Cash and cash equivalents

	2013 US$'000	2012 US$'000
Cash at bank and in hand	83,676	23,300
Short-term bank deposits	86,919	135,926
	170,595	159,226

18. Derivative financial instruments

	31 December 2013		31 December 2012	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Forward gold contracts – cash flow hedge [(a), (b)]	62,838	–	–	–
	62,838	–	–	–

(a) During 2013, the Group entered into financing contracts to sell an aggregate of 723,430 ounces of gold over a period ending 31 December 2014 at an average price of US$1,527 per ounce.

Financing contracts to sell an aggregate of 279,138 ounces of gold at an average price of US$1,429 per ounce are outstanding as at 31 December 2013.

The hedged forecast transactions are expected to occur at various dates during the next 12 months. Gain and losses recognised in the hedging reserve in equity on forward gold contracts as at 31 December 2013 will be recognised in the income statement in the periods during which the hedged gold sale transactions affect the income statement.

There was no ineffectiveness to be recorded from the cash flow hedge during the twelve months ended 31 December 2013.

(b) Recurring fair value measurement treated as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:
- *gold forward curves observable at quoted intervals; and*
- *observable credit spreads.*

19. Trade and other payables

	2013 US$'000	2012 US$'000
Trade payables	24,579	55,429
Advances from customers	9,688	10,002
Advances received on resale and commission contracts [(a)]	13,561	3,740
Accruals and other payables	51,065	76,627
	98,893	145,798

(a) Amounts included in advances paid on resale and commission contracts at 31 December 2013 and 31 December 2012 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

	2013 US$'000	2012 US$'000
Borrowings at amortised cost		
Convertible bonds [(a)]	300,254	352,475
Bank loans [(b)]	818,758	867,265
Other loans [(b)]	–	2,781
	1,119,012	1,222,521
Amount due for settlement within 12 months	158,495	83,789
Amount due for settlement after 12 months	960,517	1,138,732
	1,119,012	1,222,521

(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 £11.56 with effect from 26 June 2013 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.

In 2013, the Group has through a series of individual transactions purchased a total of US$69.5 million in principal amount of the Bonds for an aggregate cash consideration of US$46.2 million. The purchased Bonds were cancelled and US$310.5 million in principal amount of the Bonds remain outstanding as at 31 December 2013. The Group recognised US$19.4 million gain on re-purchase of the Bonds, being the difference between cash consideration and transaction costs paid and the carrying amount of the Bonds cancelled at the relevant transaction dates, which was classified as an exceptional item due to the nature of this transaction.

As at 31 December 2013, the fair value of the Bonds, calculated by applying the market traded price to the Bonds outstanding, amounted to US$223 million (2012: US$359 million).

(b) As at 31 December 2013, US$119.8 million (2012: US$128.8 million) bank loans are secured against certain items of property, plant and equipment of the Group (note 14).

The weighted average interest rate paid during the year ended 31 December 2013 was 7.7% (2012: 6.8%).

The carrying value of the bank loans approximated their fair value at each period end.

As at 31 December 2013, bank loans with an aggregate carrying value of US$693.4 million (2012: US$608.9 million) contain certain financial covenants.

As at 31 December 2013, the amounts undrawn under the bank loans were US$ nil (2012: US$153.2 million).

21. Deferred taxation

	2013 US$'000	2012 US$'000
At 1 January	75,913	173,469
Deferred tax credited to income statement	(48,532)	(22,362) [(a)]
Disposal of subsidiaries	(2,024)	(16,039)
Deferred tax charged to equity	12,569	–
Transfer to liabilities associated with assets classified as held for sale	–	(59,594)
Exchange differences	(376)	439
At 31 December	37,550	75,913
Deferred tax assets	346	1,373
Deferred tax liabilities	(37,896)	(77,286)
Net deferred tax liability	(37,550)	(75,913)

(a) Including US$0.4 million tax charge related to IRC that is presented as a discontinued operation.

	At 1 January 2013 US$'000	Charged/ (credited) to the income statement US$'000	Charged directly to equity US$'000	Disposal of subsidiaries US$'000	Exchange differences US$'000	At 31 December 2013 US$'000
Property, plant and equipment	60,149	(44,350)	–	(1,453)	–	14,346
Inventory	30,620	(17,045)	–	(395)	–	13,180
Capitalised exploration and evaluation expenditure	(2,834)	(1,741)	–	–	–	(4,575)
Fair value adjustments	8,465	(811)	–	(197)	(375)	7,082
Tax losses	(4,412)	–	–	–	–	(4,412)
Other temporary differences	(16,075)	15,415	12,568	21	–	11,929
	75,913	(48,532)	12,568	(2,024)	(375)	37,550

	At 1 January 2012 US$'000	Charged/ (credited) to the income statement [(b)] US$'000	Disposal of subsidiaries US$'000	Transfer to liabilities associated with assets classified as held for sale [(c)] US$'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

(b) Including US$0.4 million tax charge related to IRC that is presented as a discontinued operation.
(c) Note 27.

As at 31 December 2013, the Group did not recognise deferred tax assets in respect of the accumulated tax losses from continuing operations comprising US$450.5 million that can be carried forward against future taxable income (2012: US$348.9 million). Tax losses of US$279.7 million can be carried forward indefinitely and tax losses of US$170.8 million expire primarily between 2018 and 2023.

As at 31 December 2013, the Group did not recognise deferred tax assets of US$10.5 million (2012: US$10.4 million) in respect of temporary differences arising on certain capitalised development costs attributable to continuing operations.

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 2013, statutory unremitted earnings from continuing operations comprised in aggregate US$1,078.9 million (2012: US$1,164.1 million).

22. Provision for close down and restoration costs

	2013 US$'000	2012 US$'000
At 1 January	33,978	34,958
Recognised during the year	–	14,278 [(a)]
Unwinding of discount	370	754 [(b)]
Change in estimates	1,821	(1,625)
Transfer to liabilities associated with assets classified as held for sale (note 27)	–	(14,626)
Foreign exchange differences	–	239
At 31 December	36,169	33,978

(a) Including US$10.7 million recognised in relation to K&S project.

(b) Including US$0.2 million related to discontinued operations.

The Group recognised provisions in relation to close down and restoration costs for the following mining operations:

	2013 US$'000	2012 US$'000
Pokrovskiy	4,597	5,238
Pioneer	5,796	5,394
Malomir	11,220	11,833
Albyn	14,172	11,129
Yamal	384	384
	36,169	33,978

The provision recognised represents the present value of the estimated expenditure that will be incurred, which has been 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 2015 and 2029 and beyond, varying from mine site to mine site.

23. Share capital

	2013		2012	
	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	9,778,332 [(a)]	150	–	–
At 31 December	197,638,425	3,041	187,860,093	2,891

(a) Issued to shareholders in respect of their entitlement to receive 1 new Ordinary Share for every 19.21 Ordinary Shares held on the Register at the close of business on 28 June 2013 pursuant to a resolution of the Company's shareholders at the annual general meeting held on 11 June 2013.

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 20 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

	2013 US$'000	2012 US$'000
At 1 January	10,196	10,444
Vesting of awards within Petropavlovsk PLC LTIP	(1,272)	(248)
Bonus share issue	1	–
At 31 December	8,925	10,196

Own shares represent 1,215,181 Ordinary Shares held by the EBT (2012: 1,319,733) to provide benefits to employees under the Long Term Incentive Plan (note 29).

25. Notes to the cash flow statement

Reconciliation of profit before tax to operating cash flow

	2013 US$'000	2012 US$'000
Loss before tax including discontinued operations	(721,413)	(204,669)
Adjustments for:		
Share of results in joint ventures	115	2,338
Share of results in associate	711	81
Investment income	(1,864)	(2,121)
Gain on re-purchase of Convertible Bonds	(19,365)	–
Interest expense	78,181	74,991
Share-based payments	7,213	11,121
Depreciation	245,915	230,440
Impairment of mining assets and goodwill	411,285	51,423
Impairment of IRC assets	28,850	20,990
Impairment of exploration and evaluation assets	94,908	58,091
Impairment of ore stockpiles	55,573	29,692
Effect of processing previously impaired stockpiles	(36,274)	–
Provision for impairment of trade and other receivables	(552)	2,391
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell	151,589	197,854
Loss on disposals of property, plant and equipment	1,173	3,665
Loss on disposal of subsidiaries	3,746	26,937
Gain on disposal of the Group's interests in joint ventures and available-for-sale investments	–	(498)
Exchange losses/(gains) in respect of investment activity	1,029	(85)
Exchange losses/(gains) in respect of cash and cash equivalents	7,507	(4,626)
Other non-cash items	(5,369)	1,639
Changes in working capital:		
Decrease in trade and other receivables	54,124	12,084
Decrease/(increase) in inventories	61,691	(119,901)
(Decrease)/increase in trade and other payables	(11,404)	18,399
Net cash generated from operations	407,369	410,236

Non-cash transactions
Other than issue of Ordinary Shares (note 23), there have been no significant non-cash transactions during the year ended 31 December 2013 (2012: other than acquisition of assets for consideration that was satisfied through the issuance of ordinary shares by IRC Limited, there have been no significant non-cash transactions).

26. Related parties

Related parties the Group entered into transactions with during the reporting period

OJSC Asian-Pacific Bank ('Asian-Pacific Bank') and LLC Insurance Company Helios Reserve ('Helios') are considered to be related parties as members of key management have an interest in and collectively exercise significant influence over these entities.

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 their 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 Verkhnetisskaya GRK until 8 July 2013. Verkhnetisskaya GRK became an associate to the Group on 8 July 2013 (note 28) and hence is a related party since then.

CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ('Omchak') became an associate to the Group in December 2012 and hence are related parties since then.

Transactions with related parties the Group entered into during the years ended 31 December 2013 and 2012 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	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Asian-Pacific Bank				
Sales of gold and silver	–	1,484	–	–
Other	462	383	552	1,124
	462	1,867	552	1,124
Trading transactions with other related parties				
Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control	101	121	10,045	10,085
Associates	344	4	–	–
	445	125	10,045	10,085

During the year ended 31 December 2013, the Group made US$1.1 million charitable donations to the Petropavlovsk Foundation (2012: US$2.6 million).

The outstanding balances with related parties at 31 December 2013 and 2012 are set out below.

	Amounts owed by related parties at 31 December		Amounts owed to related parties at 31 December	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Helios and other entities in which key management have interest and exercises a significant influence or control	1,955	1,386	2	584
Associates	132	485	144	824
Asian-Pacific Bank	9	2	–	–
	2,096	1,873	146	1,408

Banking arrangements

The Group has current and deposit bank accounts with Asian-Pacific Bank.

The bank balances at 31 December 2013 and 2012 are set out below.

	2013 [a] US$'000	2012 [a] US$'000
Asian-Pacific Bank	46,505	14,054

(a) Including US$24.4 million presented within assets classified as held for sale as at 31 December 2013 (2012: US$8.3 million) (note 27).

Financing transactions

During the year ended 31 December 2013, the Group's subsidiary Verkhnetisskaya GRK received US$0.04 million under interest-free unsecured loan arrangements with Krasnoyarskaya GGK (2012: US$0.8 million).

The Group had an interest-free unsecured loan issued to Verkhnetisskaya GRK. Loan principal outstanding as at 31 December 2013 amounted to US$6.2 million.

As at 31 December 2013 and 31 December 2012, the Group had an interest-free unsecured loan issued to LLC Kaurchak. Loan principal outstanding amounted to US$1.0 million (31 December 2012: US$1.0 million).

Financing transactions between IRC and Asian-Pacific Bank are disclosed in note 27.

Key management compensation

Key management personnel, comprising a group of 21 (2012: 22) 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.

	2013 US$'000	2012 US$'000
Wages and salaries	10,279	14,763
Pension costs	534	549
Share based compensation	5,472	6,519
	16,285	21,831

27. Asset held for sale and discontinued operation – IRC

Following negotiations with several interested parties the Directors of the Company resolved to approve the potential investment in IRC Limited by the investors as set out below 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 2013 and 31 December 2012 as well as presented as a discontinued operation in the income statement.

The main categories of assets and liabilities classified as held for sale are set out below.

	31 December 2013		31 December 2012	
	Carrying amount US$'000	Fair value less costs to sell (a), (b) US$'000	Carrying amount US$'000	Fair value less costs to sell (a), (b) US$'000
Intangible assets	53,302	22,635	64,286	43,070
Property, plant and equipment (c)	609,061	231,803	593,249	378,243
Prepayments for property, plant and equipment	228,671	228,671	162,012	162,012
Interests in joint ventures	4,893	4,893	4,887	4,887
Other non-current assets	20,627	20,627	27,199	27,199
Inventories	57,682	57,682	43,376	43,376
Trade and other receivables	26,534	26,534	41,132	41,132
Cash and cash equivalents	92,142	92,142	18,036	18,036
Total assets classified as held for sale	1,092,912	684,987	954,177	717,955
Trade and other payables	18,593	18,593	18,959	18,959
Current income tax payable	274	274	353	353
Borrowings (d),(e)	200,226	200,226	124,475	124,475
Deferred tax liabilities	59,719	1,237	59,594	21,226
Provision for close down and restoration costs	8,616	8,616	14,626	14,626
Total liabilities associated with assets classified as held for sale	287,428	228,946	218,007	179,639
Net assets of IRC	805,484	456,041	736,170	538,316
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell as at 31 December 2012	(197,854)		(197,854)	
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell as at 31 December 2013	(151,589)			
Fair value less costs to sell (a), (b)	456,041		538,316	
Attributable to:				
Equity shareholders of Petropavlovsk PLC	222,379		349,176	
Non-controlling interests	233,662		189,140	

(a) Based on market share price of HK$0.78 per IRC share as at 31 December 2013 (31 December 2012: HK$1.17) less transaction costs. A decrease/increase of 10% in IRC's share price would result in US$45.6 million (31 December 2012: US$52.7 million) additional write-down/ reversal of write-down adjustment.

(b) Non-recurring fair value measurement treated as Level 1 of the fair value hierarchy.

(c) At 31 December 2013, IRC had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US$179 million (31 December 2012: US$ 247million).

(d) On 6 December 2010, Kimkano-Sutarsky Mining and Beneficiation Plant LLC ('K&S'), a subsidiary of IRC, entered into a 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 would 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 was charged at 2.80% above London Interbank Offering rate ('LIBOR') per annum. The facility is guaranteed by the Company and is repayable semi-annually in 16 instalments US$21,250 thousand each, starting from December 2014 when the whole facility amount is expected to be drawn down and is fully repayable by June 2022. The loan is carried at amortised cost with effective interest rate at 5.63% per annum. As at 31 December 2013 and 2012, US$6 million was deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement. ICBC Facility Agreement contains certain financial covenants. As at 31 December 2013, the amounts undrawn under the ICBC Facility Agreement were US$145.2 million (31 December 2012: US$220.6 million).

(e) IRC entered into the following financing transactions with Asian-Pacific Bank:

- *In August 2012, IRC entered into a US$15 million unsecured 11.0% term-loan facility, repayable in August 2013. In July 2013, the facility has been renewed for another 12-month period with an annual interest of 9.0% for the period from 22 July 2013 and 10.60% for the period from 3 December 2013 to the repayment date.*
- *In December 2012, IRC entered into a US$10 million unsecured 11.2% term-loan facility, repayable in December 2013. In November 2013, the US$10 million facility had been renewed for another 12-month period with an annual interest of 10.6%.*

As at 31 December 2013, the amounts undrawn under the facilities with Asian-Pacific Bank were US$5 million (31 December 2012: US$10 million).

Analysis of the result of discontinued operations and the results recognised on the re-measurement of IRC is set out below.

	2013			2012		
	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
Revenue	160,854	–	160,854	139,687	–	139,687
Net expenses	(179,113)	(28,850)	(207,963)	(165,792)	(20,990)	(186,782)
Loss before tax from discontinued operations	(18,259)	(28,850)	(47,109)	(26,105)	(20,990)	(47,095)
Taxation	(677)	–	(677)	(168)	–	(168)
Loss after tax from discontinued operations	(18,936)	(28,850)	(47,786)	(26,273)	(20,990)	(47,263)
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell	–	(151,589)	(151,589)	–	(197,854)	(197,854)
Loss for the period from discontinued operations	(18,936)	(180,439)	(199,375)	(26,273)	(218,844)	(245,117)
Attributable to:						
Equity shareholders of Petropavlovsk PLC	(10,514)	(91,152)	(101,666)	(18,155)	(140,872)	(159,027)
Non-controlling interests	(8,422)	(89,287)	(97,709)	(8,118)	(77,972)	(86,090)

Analysis of cash flows attributable to discontinued operations is set out below.

	2013 US$'000	2012 US$'000
Operating cash flows	(10,481)	(878)
Investing cash flows	(110,373)	(135,634)
Financing cash flows	196,188	120,979
Total cash flows	75,334	(15,533)

Issue of shares by IRC Limited

On 17 January 2013, IRC 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 for up to approximately HK$1,845 million (approximately US$238 million) in aggregate. 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.

A total of 851,600,000 new shares of the Company at the price of HK$0.94 (equivalent to approximately US$0.12) per share was initially subscribed by General Nice, of which 817,536,000 new shares were allotted and issued to General Nice on 5 April 2013 following approval by IRC's shareholders and the receipt of subscription monies of approximately HK$800.5 million (equivalent to approximately US$103.1 million) from General Nice.

The allotment and issue of the remaining 34,064,000 new shares ('Deferred Subscription Share') is conditional upon, among other things, the further subscription by General Nice within six months after the completion date of initial share subscription by General Nice. On 4 October 2013, IRC received an irrevocable notice from General Nice for exercising its right to further subscribe for 863,600,000 new shares of IRC ('General Nice Further Subscription Shares') for a cash consideration of approximately HK$811.8 million (equivalent to approximately US$104.7 million) ('General Nice Further Subscription Right'). Following the exercise of the General Nice Further Subscription Right, Minmetals would subscribe for 247,300,000 new shares of the Company for a cash consideration of HK$232.5 million (equivalent to approximately US$30 million). The completion of the General Nice and Minmetals subscriptions was expected to take place on 18 November 2013.

As the exercise of the General Nice Further Subscription Right was after three months but within six months from the initial share subscription by General Nice, pursuant to the conditional subscription agreement with General Nice, 8,516,000 (25%) Deferred Subscription Shares were forfeited and the associated amount of approximately HK$8 million (equivalent to approximately US$1 million) received was retained by IRC for its benefit. The remaining 25,548,000 Deferred Subscription Shares, amounting to approximately HK$24 million (equivalent to approximately US$3.1 million) would be allotted and issued to General Nice at the same time as the allotment and issue of all the new shares of IRC upon completion of General Nice Further Subscription Shares.

On 18 November 2013, the Company agreed with General Nice that the General Nice Further Subscription Shares shall be deferred and take place on or before 30 December 2013. As completion of the Minmetals subscription could only take place after completion of General Nice Further Subscription Shares, the Company also agreed that the Minmetals subscription shall take place on or before 30 December 2013.

27. Asset held for sale and discontinued operation – IRC continued

On 30 December 2013, General Nice informed IRC that it is not in a position to complete the General Nice Further Subscription Shares in full. Instead, General Nice subscribed 218,340,000 new shares of the Company for approximately HK$205.2 million (equivalent to approximately US$26.5 million) as partial subscription of the General Nice Further Subscription Shares. Consequently, Minmetals subscription did not take place as planned.

On 29 January 2014, IRC signed a Supplement Agreement to the conditional share subscription agreements dated 17 January 2013 with General Nice that the remaining General Nice Further Subscription Shares would be completed as follows:

(a) a payment of at least HK$155.1 million (approximately US$20.0 million) on or before 24 February 2014; and
(b) the balance, being HK$606.5 million (US$78.2 million) less the amount paid in (a) above, on or before 22 April 2014.

Further, in light of the arrangements between the Company and General Nice as described above, the Company and Minmetals have agreed that the Minmetals subscription shall complete upon full completion of General Nice Further Subscription Shares taking place as described above.

On 26 February 2014, pursuant to the aforesaid arrangement albeit a little delayed, IRC received subscription monies of HK$155.1 million (approximately US$20.0 million) from General Nice and accordingly has allocated and issued 165,000,000 new shares of IRC to General Nice as a further partial subscription of General Nice Further Subscription Shares.

On 23 April 2014, General Nice informed IRC that whilst it remains committed to completing the General Nice Further Subscription Completion, it is not in a position to complete the remainder of the General Nice Further Subscription and as such IRC has not received the scheduled payment of HK$451.4 million (approximately US$58.3 million, being HK$606.5 million (approximately US$78.3million) less HK$155.1 million (approximately US$20 million) received on 26 February 2014) from General Nice. Consequently neither the General Nice Further Subscription Completion nor the Minmetals Cheerglory Subscription Completion took place as planned. General Nice has also informed IRC that it intends to make a payment of at least HK$155.1 million (approximately US$20 million) as further partial subscription of the General Nice Further Subscription Shares by the end of April 2014. IRC is in discussions with General Nice, Mr Cai Sui Xin (the controlling Shareholder and Chairman of General Nice) and Minmetals Cheerglory about the abovementioned further partial subscription by General Nice, a possible further deferred completion by General Nice and Minmetals Cheerglory and other available options.

Assuming total investment completion occurs, the Group's interest in the share capital of IRC Limited would be diluted from 48.7% as at 31 December 2013 (31 December 2012: 63.13%) to 40.49%. A pro-rata indemnity from General Nice in relation to the Company's guarantee under the ICBC Facility Agreement will be then implemented.

28. Disposal of subsidiaries

On 29 November 2013, the Group disposed of its 76.62% investment in OJSC Berelekh and its subsidiaries LLC Maldyak, LLC Monolit, and LLC Elita ('Berelekh') for the total cash consideration of US$25 million.

The net assets of Berelekh as at the date of disposal are set out below.

	29 November 2013 US$'000
Intangible assets	1,231
Property, plant and equipment	20,459
Inventories	24,962
Trade and other receivables	10,343
Cash and cash equivalents	108
Trade and other payables	(20,220)
Deferred tax liability	(2,024)
Net assets disposed	34,859
Non-controlling interests	(6,152)
Group's share of net assets disposed	28,707
Total consideration	25,000
Transaction costs	(504)
Loss on disposal	(4,211)
Net cash outflow arising on disposal:	
Consideration received in cash and cash equivalents	25,000
Less:	
Transaction costs	(53)
Cash and cash equivalents disposed of	(108)
	24,839

On 8 July 2013, the Group disposed of its 21% interest in OJSC Verkhnetisskaya Ore Mining Company ('Verkhnetisskaya GRK') to OJSC Krasnoyarskaya GGC ('Krasnoyarskaya GGK') for the total cash consideration of US$172,756 and recognised a gain on disposal of US$0.5 million. The Group retained the remaining 49% in Verkhnetisskaya GRK and, accordingly, Verkhnetisskaya GRK became an associate to the Group since that date.

29. Share based payments

The Group operates various equity-settled share awards schemes. The details of share awards outstanding are set out below.

	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 £
Outstanding at 1 January 2013	387,494	–	1,266,488	–
Granted during the year	–	–	–	–
Forfeited during the year	(222,810)	–	(30,134)	–
Vested during the year	(164,684)	–	–	–
Outstanding at 31 December 2013	–	–	1,236,354	–

The Group established a new Petropavlovsk PLC LTIP which was approved by the shareholders of the Company on 25 June 2009 and includes the following awards:

- Share Option Award, being a right to acquire a specified number of Ordinary Shares in the Company at a specified exercise price;
- Performance Share Award, being a right to acquire a specified amount of Ordinary Shares in the Company at nil cost; and
- Deferred Bonus Award.

Initial performance share awards under the Petropavlovsk PLC LTIP were granted on 25 June 2009 with 482,961 shares allocated to certain Executive Directors and members of senior management of the Group, out of which 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	–

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 has granted further performance share awards under the Petropavlovsk PLC LTIP with 1,524,347 shares allocated to certain Executive Directors, members of senior management and certain other employees of the Group, out of which 1,098,904 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	–

29. Share based payments continued

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. Analysis of net debt

	At 1 January 2013 US$'000	Disposal of subsidiaries US$'000	Net cash movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2013 US$'000
Cash and cash equivalents	159,226	49,210	(31,562)	(6,279)	–	170,595
Debt due within one year	(83,789)	117	63,864	–	(138,687)	(158,495)
Debt due after one year	(1,138,732)	2,533	111,672	202	63,808	(960,517)
Net debt	(1,063,295)	51,860	143,974	(6,077)	(74,879)[(a)]	(948,417)

(a) Being amortisation of borrowings and gain on re-purchase of Convertible Bonds.

31. 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 30) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2013, the capital comprised US$2.1 billion (2012: 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

	2013 US$'000	2012 US$'000
Financial assets		
Cash and cash equivalents	170,595	159,226
Fair value through profit or loss – derivative financial instruments	62,838	–
Loans and receivables	30,915	60,183
Available-for-sale investments	124	255
Financial liabilities		
At amortised cost – trade and other payables	58,939	71,595
At amortised cost – borrowings	1,119,012	1,222,521

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 loss for the year ended 31 December 2013 would increase/decrease by US$1.91 million (2012: increase/decrease by US$2.65 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from fluctuations in currencies the Group transacts, primarily US Dollars, GB Pounds Sterling and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging.

31. Financial instruments and financial risk management continued

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at period end are set out below.

	Assets		Liabilities	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Russian Roubles	172,831	211,703	68,450	106,012
US Dollars [(a)]	50	4,501	8,063	13,699
GB Pounds Sterling	1,851	1,186	2,197	11,075
EUR	2	175	577	14,876
Other currencies	389	440	51	169

(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 (2012: 10%), representing management's assessment of a reasonably possible change in foreign exchange currency rates.

	2013 US$'000	2012 US$'000
Russian Roubles currency impact	10,438	10,569
EUR currency impact	57	1,470
US Dollar currency impact	801	920
GB Pounds Sterling currency impact	35	989
Other currencies	34	27

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 2013 US$'000	Carrying amount at 31 December 2012 US$'000
Sberbank	BBB	69,400	10,550
Alfa-Bank	BBB-	37,641	120,793
UBS	A	29,980	7,254
Asian-Pacific Bank	B+	22,082	5,622
VTB	BBB	6,481	3,975

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 2013, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18 and 34).

Equity price risk

The Group is exposed to equity price risk through the investment in IRC (note 27).

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 and so 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
2013					
Borrowings					
– Convertible bonds	–	–	310,500	–	–
– Loans	18,523	134,443	97,110	240,793	322,361
Expected future interest payments [a]	20,299	40,741	42,434	27,910	14,979
Trade and other payables	58,939	–	–	–	–
	97,761	175,184	450,044	268,703	337,340
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

(a) Expected future interest payments have been estimated using interest rates applicable at 31 December. Loans outstanding at 31 December 2013 in the amount of US$221 million (2012: US$275 million) are subject to variable interest rates and, therefore, subject to change in line with the market rates.

32. Operating lease arrangements

The Group as a Lessee

	2013 US$'000	2012 Restated US$'000
Minimum lease payments under operating leases recognised as an expense in the year	3,372	3,095

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:

	2013 US$'000	2012 Restated US$'000
Expiring:		
Within one year	354	223
In two to five years	524	–
	878	223

The Group as a Lessor

The Group earned property rental income from continuing operations during the year of US$1.5 million (2012: US$2.6 million) on buildings owned by its subsidiary Irgiredmet.

33. Capital commitments

At 31 December 2013, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US$61.0 million, including US$25.6 million in relation to pressure oxidation hub at Pioneer (2012: US$72.1 million, including US$52.3 million in relation to pressure oxidation hub at Pioneer).

34. Subsequent events

Issue of shares by IRC Limited

On 26 February 2014, 165,000,000 new shares of IRC Limited were allotted and issued to General Nice after IRC received subscription monies of HK$155.1 million (approximately US$20.0 million) from General Nice (note 27).

On 23 April 2014, General Nice informed IRC that whilst it remains committed to completing the General Nice Further Subscription Completion, it is not in a position to complete the remainder of the General Nice Further Subscription and as such IRC has not received the scheduled payment of HK$451.4 million (approximately US$58.3 million, being HK$606.5 million (approximately US$78.3million) less HK$155.1 million (approximately US$20 million) received on 26 February 2014) from General Nice. Consequently neither the General Nice Further Subscription Completion nor the Minmetals Cheerglory Subscription Completion took place as planned. General Nice has also informed IRC that it intends to make a payment of at least HK$155.1 million (approximately US$20 million) as further partial subscription of the General Nice Further Subscription Shares by the end of April 2014. IRC is in discussions with General Nice, Mr Cai Sui Xin (the controlling Shareholder and Chairman of General Nice) and Minmetals Cheerglory about the abovementioned further partial subscription by General Nice, a possible further deferred completion by General Nice and Minmetals Cheerglory and other available options (note 27).

Hedging agreements

In January 2014, the Group has entered into financing contracts to sell a total of 85,115oz of gold during the year 2014 at an average price of US$1,250/oz.

35. Reconciliation of non-GAAP measures (unaudited)

	2013			2012 Restated		
	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000	Before exceptional items US$'000	Exceptional items US$'000	Total US$'000
(Loss)/profit for the period from continuing operations	(70,965)	(442,883)	(513,848)	118,726	(117,557)	1,169
Add/(less):						
Interest expense	75,268	–	75,268	73,227	–	73,227
Investment income	(888)	–	(888)	(1,709)	–	(1,709)
Other finance (gains)/losses	–	(19,365)	(19,365)	13,581	–	13,581
Foreign exchange losses/(gains)	5,769	–	5,769	(6,395)	–	(6,395)
Reversal of gain attributed to re-measuring equity interest in Omchak [(a)]	–	–	–	–	25,480	25,480
Taxation	52,251	(61,118)	(8,867)	47,956	(8,845)	39,111
Depreciation	224,804	–	224,804	215,375	–	215,375
Impairment of mining assets and goodwill	–	411,285	411,285	–	51,423	51,423
Impairment of exploration and evaluation assets	31,352	63,556	94,908	10,049	48,042	58,091
Impairment of ore stockpiles	11,259	44,314	55,573	29,692	–	29,692
Underlying EBITDA	328,850	(4,211)	324,639	500,502	(1,457)	499,045

(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.

36. 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 2013	Proportion of shares held by Petropavlovsk PLC 31 December 2012	Proportion of shares held by the Group 31 December 2013	Proportion of shares held by the Group 31 December 2012
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%
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%
OJSC Temi	Russia	Gold exploration and production	–	–	75%	75%
LLC Amurskie Rossypi	Russia	Gold exploration and production	–	–	–	100%
OJSC Berelekh [(a)]	Russia	Gold exploration and production	–	–	–	76.62%
LLC ZeyaZoloto	Russia	Gold exploration and production	–	–	100%	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%
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 Gidrometallurgia	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	–	–	100%	99.86%
Pokrovskiy Mining College	Russia	Educational institute	–	–	98.61%	98.61%
Associate						
CJSC Verkhnetisskaya Ore Mining Company [(b)]	Russia	Gold exploration and production	–	–	49%	70%
CJSC ZRK Omchak [(c)]	Russia	Gold exploration and production	25%	25%	25%	25%

(a) Including subsidiaries of OJSC Berelekh, being LLC Maldyak, LLC Monolit, and LLC Elita.

(b) CJSC Verkhnetisskaya Ore Mining Company was a subsidiary until July 2013.

(c) Including subsidiary of CJSC ZRK Omchak, being LLC Kaurchak.

36. Group companies continued

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC 31 December 2013	Proportion of shares held by Petropavlovsk PLC 31 December 2012	Proportion of shares held by the Group 31 December 2013	Proportion of shares held by the Group 31 December 2012
IRC Limited and its principal subsidiary, joint venture and associate undertakings ('IRC') (d)						
IRC Limited	HK	Management and holding company	–	–	48.7%	63.13%
Principal subsidiaries of IRC Limited						
LLC Petropavlovsk Iron Ore	Russia	Management company	–	–	48.7%	63.13%
LLC Olekminsky Rudnik	Russia	Iron ore exploration and production	–	–	48.7%	63.13%
LLC Kimkano-Sutarskiy Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	48.7%	63.13%
LLC Garinsky Mining & Metallurgical Complex	Russia	Iron ore exploration and production	–	–	48.49%	62.86%
LLC Kostenginskiy Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	48.7%	63.13%
LLC Orlovo-Sokhatinsky Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	48.7%	63.13%
LLC Karier Ushumunskiy	Russia	Iron ore exploration and production	–	–	48.7%	63.13%
OJSC Giproruda	Russia	Engineering services	–	–	34.2%	44.37%
LLC Rubicon	Russia	Infrastructure project	–	–	48.7%	63.13%
CJSC SGMTP	Russia	Infrastructure project	–	–	48.7%	63.13%
LLC Amur Snab	Russia	Procurement services	–	–	48.7%	63.13%
Heilongjiang Jiatal Titanium Co., Limited	China	Titanium sponge project	–	–	48.7%	63.13%
LLC Uralmining	Russia	Iron ore exploration and production	–	–	48.7%	63.13%
LLC Gorniy Park	Russia	Molybdenym project	–	–	24.4%	31.63%
Joint ventures of IRC Limited						
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	Vanadium project	–	–	22.4%	29.04%

(d) After taking account of the 0.77% (2012: 3.32%) 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 49.07% (2012: 65.30%).

Company Balance Sheet

At 31 December 2013

	note	2013 US$'000	2012 US$'000
Fixed assets			
Tangible assets		95	124
Investments	3	712,062	849,299
		712,157	849,423
Current Assets			
Debtors: due within one year	4	472,614	465,662
Debtors: due after one year	4	320,808	300,000
Cash at bank and in hand		7,736	3,186
		801,158	768,848
Creditors: amounts falling due within one year	5	(286,467)	(330,013)
Net current assets		514,691	438,835
Total assets less current liabilities		1,226,848	1,288,258
Creditors: amounts falling due after more than one year	5	(534,945)	(574,161)
Net assets		691,903	714,097
Capital and reserves	7		
Share capital		3,041	2,891
Share premium		376,991	377,140
Merger reserve		19,265	130,011
Own shares		(12,677)	(14,483)
Convertible bond reserve		48,235	59,032
Other reserves		19,320	17,180
Profit and loss account		237,728	142,326
Shareholders' funds		691,903	714,097

The accompanying notes are an integral part of this balance sheet.

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 167 to 172 were approved by the Directors on 28 April 2014 and signed on their behalf by:

Peter Hambro
Director

Andrey Maruta
Director

Notes to the Company Financial Statements

For the year ended 31 December 2013

1. Basis of preparation

The Petropavlovsk PLC ('the Company') balance sheet and related notes have been prepared on a historical cost basis, except for the revaluation of certain financial instruments at fair value in accordance with United Kingdom generally accepted accounting principles ('UK GAAP') and in accordance with UK Company law.

A summary of the principal accounting policies is set out below.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The loss after tax for the year of the Company was US$20.2 million (2012: loss after tax of US$160 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 2.11 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 29 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.

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 2013	1,826,358	9,574	246	1,836,178
Additions	32,410	–	–	32,410
Impact of intra-group transfers	(22,156)	–	–	(22,156)
Fair value change	–	–	(130)	(130)
At 31 December 2013	1,836,612	9,574	116	1,846,302
Provision for impairment				
At 1 January 2013	(985,632)	(1,247)	–	(986,879)
Charge for the year	(98,590)[a]	–	–	(98,590)
Impact of intra-group transfers	(48,771)	–	–	(48,771)
At 31 December 2013	(1,132,993)	(1,247)	–	(1,134,240)
Net book value				
At 1 January 2013	840,726	8,327	246	849,299
At 31 December 2013	703,619	8,327	116	712,062

(a) Including US$110.7 million adjustment to reflect changes in the value of the Group's investment in IRC Limited (note 7).

4. Debtors

	2013 US$'000	2012 US$'000
Owed by Group companies	791,891	743,359
VAT recoverable	288	222
Other debtors	1,243	22,081
	793,422	765,662
Due within one year	472,614	465,662
Due after more than one year	320,808	300,000
	793,422	765,662

5. Creditors

	2013 US$'000	2012 US$'000
Due to Group companies	296,382	321,267
Bank loans	522,142	571,908
Trade creditors	1,801	3,732
Accruals and other creditors	1,087	7,267
	821,412	904,174
Due within one year	286,467	330,013
Due after more than one year	534,945	574,161
	821,412	904,174

6. Taxation

As at 31 December 2013, the Company has tax losses available to carry forward in the amount of US$139.3 million (2012: US$143.3 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 2012	2,891	377,140	331,704	59,032	(14,835)	13,859	135,155	904,946
Loss for the year, including transfer from merger reserve	–	–	(201,693) (d)	–	–	–	41,737	(159,956)
Dividends	–	–	–	–	–	–	(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 1 January 2013	2,891	377,140	130,011	59,032	(14,483)	17,180	142,326	714,097
Loss for the year, including transfer from merger reserve	–	–	(110,746) (d)	–	–	–	90,578	(20,168)
Dividends (b)	–	–	–	–	–	–	(5,774)	(5,774)
Bonus Share issue (e)	150	(149)	–	–	(1)	–	–	–
Share based payments	–	–	–	–	–	3,878	–	3,878
Vesting of awards within Petropavlovsk PLC LTIP	–	–	–	–	1,807	(1,608)	(199)	–
Buy-back of Convertible Bonds	–	–	–	(10,797)	–	–	10,797	–
Revaluation of available-for-sale investments	–	–	–	–	–	(130)	–	(130)
Balance at 31 December 2013	3,041	376,991	19,265	48,235	(12,677)	19,320	237,728	691,903

(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 29 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).

(e) Note 23 to the consolidated financial statements.

8. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain subsidiaries. Please also see note 27 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:

	2013 US$'000	2012 US$'000
Expiring:		
Within one year	354	223
Within two to five years	524	–
	878	223

10. Directors' remuneration

There were six Executive Directors who held office at the end of the year (2012: five Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 87 to 103 of this Annual Report.

11. Subsequent events

Please see note 34 to the consolidated financial statements.

Appendix, Glossary and Definitions

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').

The basis for reporting reserves and resources for the Group's alluvial deposits is in accordance with the Russian GKZ Classification System, approved by the State Committee on Reserves ('GKZ') in 1965 (amended in 1981 and 2008). The Russian GKZ 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, or other internationally recognised mineral reserves classification codes.

The Russian GKZ 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 2013

alluvial	material which is transported by a river and deposited at points along the flood plain
Au	chemical symbol for the element gold
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
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 35 of the consolidated financial statements
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
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
***Indicated* Resource**	as defined in the JORC Code, 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, 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*
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 GKZ 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	In mining, *stripping ratio* or *strip ratio* refers to the ratio of the volume of *overburden* (or waste material) required to be handled in order to extract some volume of ore. For example, a 3:1 stripping ratio means that mining one cubic metre of ore will require mining three cubic metres of waste rock
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
Yamal, Yamal region	Yamalo-Nenets Autonomous District of Russia

Shareholder Information

Company Head Office
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Petropavlovsk PLC is registered in England and Wales.

Company number: 4343841

Registrars
Enquiries relating to shareholdings in Petropavlovsk PLC should be made to the Group's UK Registrars, Capita Asset Services:

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Email: shareholderenquiries@capita.co.uk

Telephone: 0871 664 0300

(Calls charged at 10p per minute plus network extras)

Lines are open 8.30am to 5.30pm, Monday to Friday.

From outside the UK:
+44 (0)20 8639 3399

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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