# Annual Report 2015

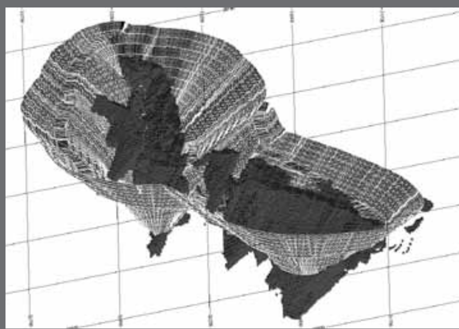
PETROPAVLOVSK

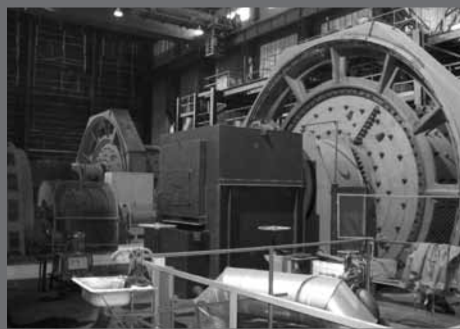
# About Petropavlovsk

## We are one of Russia's most established and experienced gold mining companies

Since 1994, Petropavlovsk has evolved into the largest vertically integrated gold producer in the Russian Far East. Our people have led our four open pit gold mines to deliver an impressive record of production growth. Drawing upon an established mining tradition, our strategy focuses on creating value for shareholders via stable, low-cost production from quality assets. In line with this, we are creating a technologically innovative Pressure Oxidation Hub which, supported by solid infrastructure, is designed to process refractory ore concentrates from multiple deposits in the area.


4 open pit gold mines located in the Russian Far East


c.8.5Moz of Reserves within c.23.7Moz of Resources


c.15Mtpa of processing capacity


Successful development of innovative technologies

Skilled workforce with local knowledge and expertise

Part of FTSE SmallCap Index

Go to page 10 for more on our business model.

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# Strategic report

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# Chairman's Statement

## Peter Hambro

2015 was a year of significant change and development for Petropavlovsk and marked the beginning of a shift in our strategic transformation. We are focused on ensuring that the Group is positioned to provide sustained profitability and generate meaningful cash flow, giving investors leverage to the price of gold by producing high-margin ounces at sustainable levels.

In 2015 we completed a major refinancing of the company, thanks in part to the willingness of our convertible bond holders to accept a debt-for-equity exchange and in part to the willingness of Pavel Maslovsky, Andrei Vdovin and I to invest some $30 million into new equity. Many of our individual shareholders also took up their rights and I am extremely grateful to them for the faith that they showed in the future of the company.

This new equity funding and the underlying cash flow that we have managed to generate during the year enabled us to reduce the level of Net Debt to $610 million by 31 December 2015.

As the year progressed, however, it became apparent that debt reduction was not to be a sufficient overall objective and our enhanced strategy entails a fundamental shift away from the aspiration to achieve the maximum levels of production as a first priority. Instead we will focus on growing the margin and improving free cash flow – without compromising the long term sustainability of our mines. We needed to change and to re-instate the growth of Petropavlovsk in response to a world where gold had, once again, become an attractive investment medium. We need to focus on the excellent reserves and resources that we have and to do so faster than we had originally planned. In order to deliver on this we focused on three areas: finding a partner to help us to restart the all-important pressure oxidation project to deal with the refractory ore at Malomir and Pioneer, increasing the size of the Group with a suitable acquisition, and developing the underground potential of the high grade mineralisation at Pioneer. Happily the 2015 refinancing and debt reduction put us in a good position to start on all three projects.

We identified the gold at Malomir, which is easy to mine but hard to process, as the fastest route and we were fortunate in finding a partner with whom to develop it without having to invest more or give up any rights to the reserves and resources that a royalty streaming finance option would demand. This is possible because our partner has its own supply of refractory concentrate and our facilities are large enough and have the flexibility to cater for both. In order to access the embedded value of the Group's refractory reserve base, we are accelerating the POX Hub's development, under the critical condition that this will not increase Group debt levels.

This will be achieved through a new joint-venture company, initially a 100% subsidiary of Petropavlovsk and finally a 49-51% collaboration with GMD Gold, which will unlock the potential of the world-class refractory gold deposit at Malomir and take us through the processing of Pioneer's refractory gold when its non-refractory ores are exhausted. We expect that at full capacity production from our share of the Pox Hub will be in the 200,000 to 300,000 oz range and that the cost of production from the Malomir ore through this process will be much in line with the costs we have experienced in producing gold from the non-refractory ore at Pioneer.

Looking ahead, we have adjusted our strategy to target accretive acquisitions, which will improve the quality of our portfolio on a free cash flow per ounce basis, and bring medium to long term cash flow benefits, offer short and long term growth potential, and have synergies with our existing operations. We are very happy to report that we are making significant progress in implementing this strategic objective. As it was announced separately today, we have entered into an agreement to acquire AZ, an established gold company with production and development assets in the Khabarovsk Region in the Far East of Russia. Based on preliminary due diligence we expect that Amur Zoloto ("AZ") will add to our total gold output without any extra capital expenditure, and bring an uplift to our high grade non-refractory mineral resources and ore reserves base. In line with this strategic objective of seeking more immediate returns, we are also planning to dispose of our Visokoe deposit located in the Krasnoyarsk region and have received an indicative offer of $20million.

Both of these elements have already had a significant effect on our relationship with our principal lenders, Sberbank and VTB, and I am pleased to say that we have made substantial progress in renegotiating the terms of the financial covenants and debt repayments ahead of the next covenant measurement date, 30 June 2016.

We have launched a comprehensive programme of exploration and development of our existing projects in order to maximise their net present value (NPV). This programme envisages increases in the quality and quantity of our mineral resources not only through exploration of flanks and satellite deposits of our producing mines but also by introducing new methods, in particular underground mining, to maximise production margins and optimise production schedules. We have also made some considerable progress in planning the start of our underground mining at Pioneer, thanks to some excellent work by the Australian specialists and we are now in the process of fitting their ideas into the Russian scheme of mine planning and development.

We have received some very encouraging results from drill-holes into the underground ore body from the surface and look forward to completing the exploration of the underground potential from within the portal, once it has been completed.

Recent news from IRC, our investment in iron ore production on the Russo-Chinese border, has also improved. ICBC and its credit insurer, Sinosure, have agreed to substantial relaxation of covenants and repayment terms for IRC contingent on some conditions precedent including the Debt Restructuring of Petropavlovsk, and this also extends to covenants on Petropavlovsk in connection with its guarantee.

All in all then, as we recovered from the turmoil of the restructuring and the higher volatility of the gold price and the relevant foreign-exchange rates, we have weathered the storm reasonably well and can, I think, look forward with some certainty to much improved business in the near future.

I should like to welcome the two new Non-Executive Directors, Andrew Vickerman and Alexander Green and thank them for the confidence they have shown in the company by agreeing to join the Board. I should also like to thank Sir Roderic Lyne, who, after more than 10 years involvement with Petropavlovsk and IRC, has reached the point where corporate governance judges him no longer to be independent and he will, accordingly, stand down as a Director at the annual general meeting. We will be seeking to replace him as Senior Independent Director at that time.

Since the year end, the Renova Group, from Moscow, has become the largest shareholder in the Company and we look forward to finding a way in which we can work together.

It goes without saying that we could not have achieved as much as we have done without the hard work and goodwill of all the members of both Petropavlovsk's workforce and its shareholders. The Board and I extend our thanks to them all.

I have spoken in my shareholder letters in the past about the turbulence in the world's financial markets and it seems that there is no end to this in sight. Accordingly I believe that gold, our principal product, will remain much in favour with investors of all sorts for its role as "wealth insurance" and thus that its price will remain buoyant.

**Peter Hambro**
Chairman

# Chief Executive Officer's Statement

## Pavel Maslovskiy

**Strengthening our Balance Sheet**
In 2015, we focused on further strengthening our balance sheet by decreasing our outstanding debt and adjusting its maturity schedule. Operational performance together with the refinancing and sale of our non-core assets generated cash during 2015 that enabled the Group to significantly reduce its net debt by US$320 million to US$610 million at the end of 2015, with repayment to our main lenders in line with the maturity schedules. It remains our medium term objective to reduce net debt to a ratio of not more than 1.5 EBITDA allowing for a balanced development of the Group and its further growth.

The Group is in discussions with its principal lenders to amend the maturity profile and revise certain covenants associated with its banking facilities.

**Focusing on Cash Generation and Free Cash Flow Margin**
Cost control is a critical pillar of our cash-generating strategy and the Group made further considerable progress in this area during the year. We achieved a 13% decline in hard-rock TCC per ounce, on top of a 12% decline in TCC during 2014. In total, this brings cumulative cost reductions to 23% between 2013 and 2015.

We have also delivered a sustainable step reduction in other costs, regardless of which metric is looked at – operating costs, overheads, capital expenditure or exploration. Of these the most impressive is a 20% decrease in our central administration costs, on top of a 17% reduction in the previous year due to the systematic and careful work of our team. At US$874/oz, our all-in sustaining costs for 2015 represent a 10% drop from US$972/oz in 2014, and our all-in costs fell 14% to US$932/oz over the same period.

Besides our ongoing cash optimisation programme, a number of other factors were key to achieving this:

- Moving away from marginal mining at various operations
- Restructuring and rightsizing our corporate, regional and operational structures, including an 11% reduction in our workforce
- Rationalising and prioritising capital expenditure and deferring non-essential capital, whilst preserving the sustainability of our mines
- General cost savings driven by ongoing business process re-engineering
- A comprehensive programme of procurement optimisation
- Outsourcing
- Implementing new cost-saving technologies.

These efforts are continuing and will do so throughout 2016, with a view to protecting and further increasing the Group's margins in the current low gold price environment. Effective cost management will also prove beneficial to our margin when the gold price eventually recovers.

**Protecting Long-Term Sustainability**
To ensure our business has a strong future and that we achieve a maximum value from our producing assets, we have prioritised continued exploration and development of our underground and surface ore bodies. At the same time we have carried out further exploration activities at the flanks and satellites of our existing mines.

During 2015, our brownfield exploration delivered c.100,000oz of non-refractory reserves and c.1, 000, 000oz of resources compensating the resource depletion in 2015 production. We expect the new ounces to become part of our production output in the near future.

We have also proved that the Elginskoye deposit, which was considered as an additional resource base for the Albyn mine, is a much more sizeable deposit than expected and is currently evaluated at c.3.0Moz of reserves and resources. Whilst production planning is at an initial stage it is scheduled to become a source of ore to feed the Albyn plant, and we expect to be able to develop it into a significant standalone project in the future. The project economics are going to be substantially improved by a recent state grant to the Group of an equivalent to c.US$100 million funding to develop a local electric power line allowing a substantial expansion of both Albyn and Malomir.

Another way of unlocking shareholder value without substantial investment is revising the production schedules of our existing ore bodies to optimise further development and increase production margins.

For example, several ore columns at Pioneer are high-grade and remain open at depth, offering potential for significant resource and reserve expansion. Until recently, exploration at Pioneer was targeting exclusively open pit resources and reserves – these high grade intersections have not been followed up by deeper drilling in a down-dip direction.

In 2015 we completed extensive exploration targeting deeper high grade mineralisation at Pioneer and Malomir. The results of this have been extremely encouraging permitting us:

- to carry out an engineering study on underground development at Pioneer and Malomir, confirming that both underground projects are technically viable and profitable
- to conclude a pre-feasibility study by an independent consultant for Pioneer's North East Bakhmut and Andreevskaya and Malomir's Quartzitovoye deposits

The full feasibility study is expected to complete in 2016 and underground mining is expected to start in 2016 at North-East Bakhmut and in 2018 at Quartzitovoye. Currently our specialist estimate pre-production capital cost for Pioneer and Malomir underground mines as c.US$25-30 million with total contribution from both mines up to c.130,000oz – 180,000oz. Initial resources for underground mining estimated via surface drilling in excess of 0.4Moz at an average c.8.3g/t would justify commencement of first underground working and to continue exploration and reserves definition with the use of underground drilling which is expected to further increase reserves for underground mining.

The Group has carried out a surface exploration programme establishing enough mineral resources to justify the development of underground mining operations. The detailed exploration and active project development are scheduled to commence this year.

**Unlocking value from our Refractory Reserves**
I am pleased to report that the Group has made substantial progress in this area and has entered into a conditional agreement to create a joint venture with GMD Gold, an operator in the Krasnoyarsk region founded by reputable industry players, to complete development of the processing plant for treatment of refractory gold ores and concentrates. GMD Gold has an operation that produces refractory concentrate and has been seeking a way to extract gold from these assets.

The JV, a toll-treatment alliance, stands to unlock the value embedded in the Group's refractory resources enabling Petropavlovsk to increase total gold production by a target of 30 – 50% by 2020.

Under the terms of the agreement, Petropavlovsk will contribute to the JV some existing assets and the property rights as required to establish the POX Hub – a hydrometallurgical facility for processing refractory gold ores and concentrates – in return for a 49% equity stake in the JV. Our collaborator GMD Gold will contribute the equivalent of US$120 million in exchange for 51%, becoming an owner and operator of the POX Hub. The hub is expected to start production in 2018.

GMD Gold is associated with Novoangarskiy and Gorevskiy mining and metallurgical plants, which are established enterprises in Russia. The plants are involved in the treatment of lead-zinc ores from the Gorevsky deposit (one of the world's largest polymetallic deposits), are owners of licences for the gold and antimony deposit of Udereyskoye in the Krasnoyarsk region, and own licences for the Bagbora and Bogolubovskoye refractory gold deposits.

In order to start refractory concentrate production for the POX Hub, Petropavlovsk will need to invest an estimated U$30 – US$40 million to complete and expand the existing flotation plant at Malomir to 5.6Mtpa. Flotation and POX commissioning is set to contribute an additional 200,000-300,000oz (depending on quality of the concentrate) of yearly output to the Group's gold production at TCC levels similar to the Group's current costs of production.

This project will enable us to unlock the value of our refractory mineral resource base without causing any additional strain to our balance sheet. Any profits, arising at JV level will be shared on a 50:50 basis.

With the current refractory reserve and resource base of 9.31Moz (including 3.95Moz of JORC reserves at Malomir and Pioneer), we expect the prospective JV to unlock a significant value for our shareholders and ensure sustainable production from refractory assets for at least 20 years with excellent growth potential.

The POX Hub design allows for separate and simultaneous processing of refractory concentrates with a wide range of metallurgical properties. In line with the agreement, if necessary the POX Hub could be used as a processing base for third parties on an off-take agreements basis.

In addition, once the POX Hub is operational, Petropavlovsk will sell to GMD on market terms an amount of concentrate for processing constituting at least 25% of the POX Hub throughput capacity.

Petropavlovsk's new strategy has a direct bearing on our approach to growth. Not only does it mean that we must scrutinise every dollar spent on this, it defines the quality of the assets that we seek to acquire. As a result, we have adopted an active portfolio management approach. This requires ongoing assessment of our existing assets and potential targets for acquisition, as well as identifying and disposing of projects not aligned with Group objectives, with a view to improving the quality of our overall portfolio.

As a result of the above and in line with our new strategic objective of growing organically as well as through accretive acquisitions, we are happy to announce that we have announced an agreement to acquire Amur Zoloto (AZ), a leading gold mining company in the Russian Far East that has clear synergies with Petropavlovsk. The acquisition promises to increase the quality and quantity of our mineral resource base, and will enable us to increase production. It would be paid for in shares and therefore would not increase Group debt.

We are excited to be connecting with such reputable mining partners and look forward to working together as the projects progress.

**Divestment of Non-Core Projects**

The Group's strategy is to focus on its core producing assets in the short-term. For this reason, Petropavlovsk did not allocate significant capital expenditure for its non-core projects, although we frequently review ways to realise value from these assets.

In line with this plan, in 2015, we finalised the sale of our non-core high cost alluvial gold deposits through the sale of Koboldo – the holder of our alluvial licences in the Amur Region, allowing us to focus on new and existing high margin assets.

We are also planning to dispose of assets of LLC Ilyinskoye – a holder of the Visokoe deposit and Verhnetisskaya GRK CJSC. The total consideration amounts to US$20 million, expected to be paid in July 2016. Although US$32.5 million of impairment charges have been recorded against associated exploration and evaluation costs for these assets, we consider that this disposal is a successful implementation of our enhanced strategy allowing us to focus on our priority projects.

**Our Strategic Priorities for 2016**

During the current financial year, Petropavlovsk will continue to build on the strategies it has implemented over the last two years. The five strategic priorities for 2016 reflect this continued focus:

- Improving cash flow and margins: making money at current prices through further decrease in TCC/oz to c.US$700/oz and Capex at c.US$70 million in line with the previous year
- Improving our balance sheet: further Net debt reduction to c.US$570 million and completion of restructuring of the debt to our senior lenders
- Providing medium-term sustainability: development of underground mining at Pioneer and further brownfield exploration
- Unlocking long-term value: creation of the proposed JV for the development of the POX Hub
- Growth through acquisitions: progress Amur Zoloto acquisition as well as identifying other producing or brownfields assets with the potential to accelerate the unlocking of value for all stakeholders

**Beyond 2016**

The sustainability of our business is ensured by understanding the linkages between all of the inputs and outputs of our operations. This enables us to maximise the benefits for all stakeholders and reduce the risks to the business.

The new strategic objectives support our long-term vision for Petropavlovsk, a leading Russian gold mining company with highly profitable and sustainable gold production. We expect that implementing these strategic objectives will ensure a long-term, 10-20% annual increase in Group gold production, and a sustained increase in profitability at the current gold price. Depending on success of the deals announced today this forecast may substantially improve.

**Pavel Maslovskiy**
Chief Executive Officer

# Gold Market Overview

**How did gold perform in 2015?**
The Gold PM Fix price declined by 12% in 2015, commencing the year at US$1,206/oz and closing at US$1,060/oz. The precious metal traded within a range of US$1,049/oz – US$1,296/oz, averaging US$1,160 for the year, an 8% reduction when compared to 2014.

**How does that compare to some of the other commodities?**
On a relative basis, gold outperformed its precious metals peers, including silver (-13%), platinum (-28%) and palladium (-32%), as well as the Bloomberg Commodity Index (-25%).

**What were some of the noticeable events in 2015 that might have impacted on the gold price?**
Uncertainty around the sustainability of global economic growth, depressed commodity prices, political uncertainty in Greece (the possibility of 'Grexit'), geopolitical tensions (Russia, Middle East) and concerns over low to negative interest rates outside of the US did lead to some upside in gold. However, the impact was limited in its magnitude and duration. One explanation for this is that, following multiple bailouts and last minute resolutions, investors have become more complacent over time about uncertainty and elevated levels of risk. Investors also considered possible action from the US Federal Reserve and its perceived willingness to hike rates in the face of an improved and growing American economy. The prospect of higher interest rates in an environment of benign inflation is perceived as a negative for gold.

**What was physical demand like during the year?**
Total gold demand was broadly flat in 2015, totalling 135Moz. The jewellery segment accounted for c.78Moz of the total figure, with India and China the most prominent buyers, together accounting for c.60%. Purchases in H2 were particularly strong, notwithstanding the apparent slowing economic growth in China. In contrast, demand amongst Russian consumers collapsed as the rouble continued to weaken against the dollar. Meanwhile, industrial demand declined by 5% in 2015 to c.11Moz, with the electronics sector affected as manufacturers looked to substitute gold with other materials.

**What about investment demand in 2015?**
The investment segment primarily consists of bar and coin demand and bullion accumulated by Exchange Traded Funds (ETFs). Bar and coin demand climbed 1% vs. 2014 to c.33Moz, with strong demand out of Europe (c.7Moz), China (c.6Moz) and India (c.6Moz). While at their peak in Dec 2012 – Jan 2013, gold held by the world's top 20 ETFs came in at close to 90Moz; by the end of 2015, holdings declined to 50Moz, 8% (c.4Moz) less than 2014. Some suggest that the deceleration in ETF outflows since 2013 (when the top 20 gold ETFs declined by 29Moz / 32% that year) shows that much of the adjustment has already taken place and holders who intended to sell have already done so. It is also worth noting that ETF holdings are now more geographically diversified, away from the US.

**Did central banks continue to purchase gold?**
Central banks around the world continued to buy gold, with net purchases totalling c.18Moz in 2015, an increase on 2014 levels. Gold is typically recognised as an asset class to help diversify reserves. As in previous years, Russia was a significant buyer, acquiring more than 6Moz. China and Kazakhstan also added to their existing gold holdings.

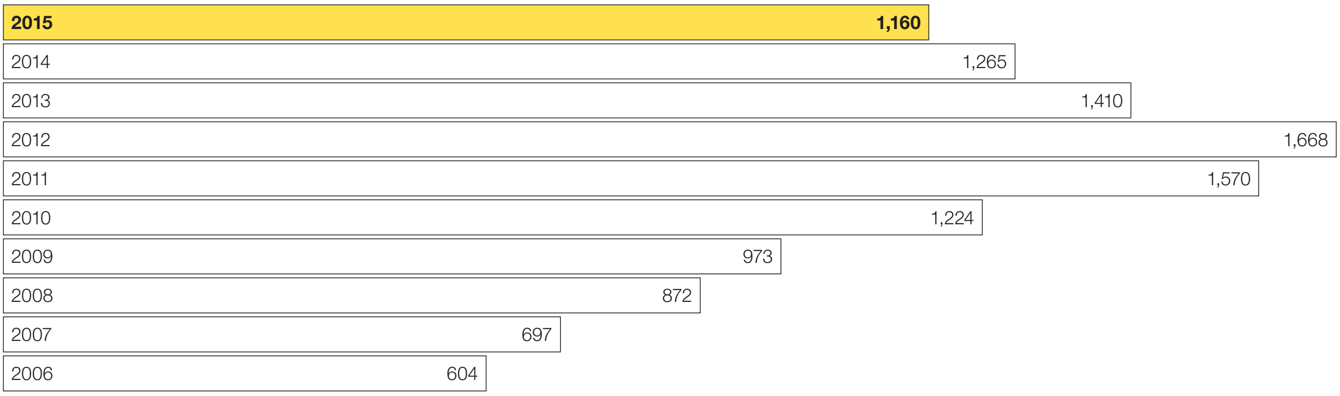
**And on the supply side?**
Total mine supply declined by 2% to c.102Moz in 2015, while recycling dropped 7% to c.35Moz in line with a weaker gold price. Decreasing supply should not come as a surprise as miners continue to adjust to a new era of lower gold prices, with tighter controls on operating costs and less exploration and development. In the longer term, a lack of substantial new discoveries alongside a trend towards lower grades is likely to continue to affect industry output. Should prices continue their downward course, supply side adjustments will begin to feed through, providing price support and helping gold to find an equilibrium.

**How has gold performed in 2016?**
Gold's status as a wealth preservation, insurance and diversification tool received renewed attention in Q1. This was encouraged by global macroeconomic concerns, particularly fears of a hard landing in China, ongoing commodity price weakness, credit concerns and ensuing stock market volatility. These factors resulted in a strong performance for gold, which appreciated by 17% during the quarter, outperforming the major global stock market indices (Shanghai Composite -15%, NIKKEI 225 -12%, DAX -7%, FTSE 100 -1%, S&P 500 +1%, MICEX +6%) as well as palladium (+3%), silver (+11%) and platinum (+12%).

**What is the outlook for the remainder of the year?**
Material deterioration in the macroeconomic environment would be positive for gold demand as central banks may respond with rate cuts (the ECB, Switzerland, Sweden, Denmark and Japan have all adopted negative interest rates) or more quantitative easing, helping to fuel the possibility of longer-term inflation, asset bubbles and greater uncertainty. Weak economic data and lacklustre growth is likely to cause market volatility, driving some investors out of risky assets and into gold. On the other hand, gold's 'safe haven' status might be negatively affected if the US Federal Reserve continues to raise interest rates on the basis of continuing strength in the US economy.
In such an environment, equity markets are likely to continue their upward trend, which will encourage investors to rotate money out of gold and into riskier assets.

Since gold is dollar denominated, it can be negatively affected by dollar strength because buying gold in local currency becomes more expensive. Should the dollar continue to appreciate as it did in 2015, gold demand may soften. A weaker dollar is likely to have the opposite effect. Gold is attractive to those who might be concerned about the possible effects of currency debasement and are looking for real, hard assets.

**The average annual gold price declined 8% in 2015 to US$1,160/oz** (in US$/oz)

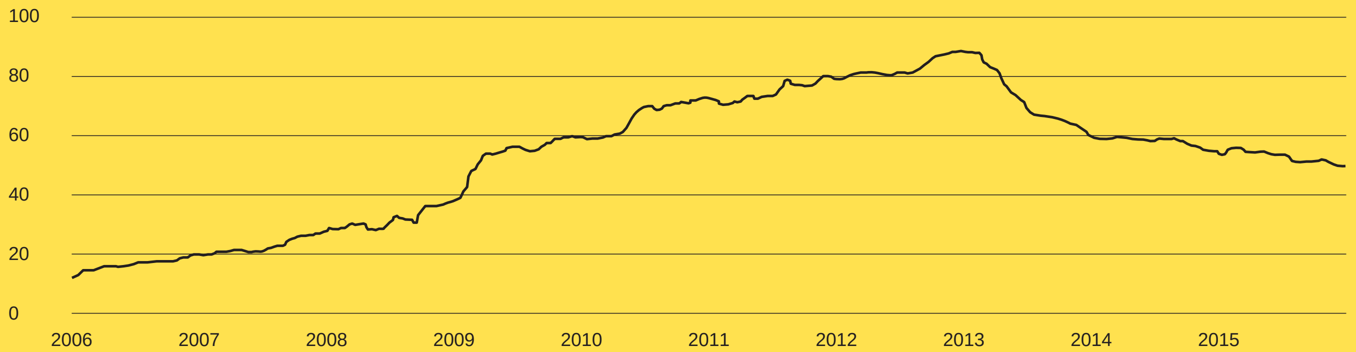



**Source:** *The London Gold Market Fixing Limited. Data provided for information purposes only.*

**Gold declined by 12% in 2015, although looking back over a period of 10 years, the price has doubled** (in US$/oz)


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

**Gold ETF's finished 2015 with combined holdings of approximately 50Moz, down 8% on the year** (in Moz)




**Source:** *UBS.*

# Our Business Model

## Who we are

**Petropavlovsk is one of the leading and most established Russian gold producers.**

## Our purpose is

**to deliver sustainable value for the benefit of all our stakeholders. We aim to achieve this by adhering to our strategy and business model, maintaining a culture of excellence and engagement in all our activities.**

## Our values are

- **responsibility:** operating safely and caring about people
- **integrity:** working honestly and ethically
- **sustainability:** leaving a positive footprint
- **innovation and problem solving:** realising the full potential of our assets through advanced practices and technologies
- **excellence:** harnessing our skills and resources to drive our business.

## How we do it

Since inception in 1994, we have developed a business model designed to implement our strategy and create value for all stakeholders while adhering to our values. Sustainable development is embedded at every stage of our business model. We produce gold by applying our expertise across the whole mining lifecycle, from identifying prospective areas to exploration, development, mining and processing.

**Identify**

Our in-house expertise and vast local knowledge based on historic mining traditions where we operate allows us to comprehensively analyse geological information. This enables us to identify the most prospective licence areas for which we can apply.

**Explore & evaluate**

Our experienced in-house exploration team has a proven track record of exploring and evaluating the highest-value deposits that are profitable throughout the commodity cycle. We aim to replenish, expand and improve our resource base in order to sustain our growth, particularly in areas close to our existing processing facilities.

Go to pages 50 to 59 for more on our exploration programme in 2015

**Develop**

We aim to use in-house expertise to develop our mines for long-term value delivery on time and on budget, efficiently converting our reserves into gold bars to maximise returns.

**Mine & process**

We create value by safely and competently operating assets that fit with our Group strategy. When we mine and process our ore, we aim to employ operational efficiency and technological expertise in order to achieve healthy profit margins.

Go to pages 40 to 49 for more on how our operations performed in 2015

**= Gold**

Doré gold bars are our end product. These are sent to one of our two refineries, one located in the Krasnoyarsk region of Russia and the other in the town of Kasimov (Ryazan region). The bars are sold predominantly to Russian banks.

Go to page 70 for a mine-by-mine breakdown of physical volumes of gold sold in 2015.

**Close down & rehabilitate**

We integrate closure planning throughout an asset's life cycle, from the earliest stages of project development. Our approach helps us to maintain a positive reputation for sustainable development and ensures we meet the expectations of our current and future stakeholders.

### Operating responsibly

We aim to operate in an efficient, safe, responsible and transparent way throughout the life of our mines. In doing so, we are supported by a talented and motivated workforce. We welcome a positive, active dialogue with 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 areas of education and healthcare. We do this through the Petropavlovsk Foundation for Social Investment.

### = Developing a sustainable future

Operating responsibly ensures the impact of our operations is positive and can be sustained into the future. We provide new employment opportunities, improved infrastructure and tax revenues for the areas we operate in. The support of our employees and local communities is instrumental to our future success together.

### Effective risk management and governance

An effective system of risk management and comprehensive corporate governance safeguards the success of the Company and the interests of all its stakeholders, including its employees and shareholders. The Group has internal control systems in place to evaluate, monitor and mitigate risks which could impact our performance at all stages of the business model. Our Directors and management teams have a breadth of knowledge and experience, which they seek to use to enable us to achieve our strategic objectives.

Go to pages 26 to 39 for more on how we manage the key risks to our business
Go to pages 82 to 87 for the Corporate Governance Report

# Our Core Strengths

## Our core strengths

Our business model is supported by strategic resources essential to the effective execution of the business – the long-standing business relationships, a well-balanced, experienced team of industry-leading specialists and other inputs necessary for sustainable growth. We consider these inputs to be our core strengths. They are integral to the way in which we operate.

## Quality of assets

We operate some of the largest gold mines in Russia in terms of the volume of gold produced, the capacity of their processing facilities and the size of their mineral resource base. Our core assets are located on and around a major belt of gold mineralisation in the Russian Far East with an excellent infrastructure. Many of our licence areas remain under-explored and thus offer potential for further growth.

At the date of publishing, the Group had entered into an agreement to acquire Amur Zoloto LLC ("AZ"), an established gold company with production and development assets in the Khabarovsk Region in the Far East of Russia. Go to page 60 for more information.

Go to pages 40 to 41
for more on our assets

## In-house expertise

Our team of highly qualified specialists and wide range of modern technical equipment support the efficient development and operation of our gold mines across the mining lifecycle. We have the ability to rapidly fast-track newly-discovered, non-refractory reserves at our mines into doré gold bars and the flexibility to adjust our mine plans efficiently in line with external factors.

Go to pages 50 to 59 for exploration,
reserves and resources

## Skilled and motivated workforce

We aim to be an employer of choice. Our main focus is on talent management – attracting, hiring and retaining talented employees who want to work for us.

We align our talent management with company strategy, defining consistent leadership criteria across all functional areas and identifying specific competencies to cultivate continuing growth. We offer employee benefits as well as safe working conditions and are committed to advancing career development opportunities.

Go to pages 24 to 25 for
more on our workforce

## Knowledge and experience

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

Go to pages 24 to 25 for more on our workforce and 80 to 81 for Directors' biographies

## Location and infrastructure

Russia has an established mining tradition and a comprehensive legislative framework for the mining sector, alongside a wide pool of highly-qualified individuals. Most of our operations are based in the Amur region. The region's developed infrastructure includes railways, roads and access to hydroelectric power.

Go to pages 40 to 41 for a map of our operations

## Responsible mining

We aim to make a transformative, positive effect on socio-economic development in the areas we operate in. We value the support of, and welcome an open dialogue with, communities local to our operations. It is essential to safeguard our employees' welfare and minimise and mitigate the negative impact of our operations on the environment, in line with Russian legislation and international best practice.

Go to pages 24 to 25 for our approach to sustainability and sustainability performance

## Our core strengths assist us in pursuit of our strategic objectives

## Our mission

# Our aim is to create and preserve value by:

- harnessing our core strengths to drive our business forward
- becoming a leading centre in Russia for processing refractory ores
- adhering to our values of responsibility, integrity, sustainability, excellence, innovation and problem solving
- achieving responsible and sustainable growth through geological exploration of new and existing areas and using technology to take our group into the future

**This mission translates into a strategy that reflects different stages of our development**

## Our near-term strategy

**In the near-term, our strategic plan is to produce optimal cash flows by extracting gold from existing non-refractory reserves, aiming to achieve the deleveraging targets set up by the Board, specifically to:**

– continue to extract gold from non-refractory ores at our four hard-rock mines in the Amur region

– continue to explore areas at, near or adjacent to the Pioneer, Malomir and Albyn mines to find new non-refractory resources, in order to expand and improve the quality of the Group's mineral base and upgrade all existing non-refractory resources into JORC-compliant Ore Reserves

– continue an optimal production schedule at Pokrovskiy and Malomir, carrying out essential care and maintenance in view of the POX Hub base and preparing the project for commissioning in the near future, in line with recent developments.

Please refer to Future Development pages 60 to 61 for more information on our conditional joint venture agreement (JV) with GMD Gold to fi nance the completion of the POX Hub, announced 28 April 2016.

## Our medium-term strategy

**In the medium-term, our strategic plan is to continue generating optimal cash flows by extracting gold from non-refractory reserves, to introduce new methods and technologies and enable and implement the processing of refractory material, specifically to:**

– continue to extract gold from non-refractory ores at the Albyn and Pioneer hard-rock mines in the Amur region

– review and potentially develop underground mining at the current mines where feasible

– review and potentially develop projects that are currently considered to be non-core

– finalise the construction of the POX Hub at Pokrovskiy and the flotation plant at Malomir to enable the processing of the Group's refractory Reserves

– continue exploration of areas at, near or adjacent to the Pioneer, Malomir and Albyn mines to expand and further improve the Group's non-refractory and refractory mineral Resources base.

## Our long-term strategy

**Our long-term strategic plan is to continue generating cash flows by producing gold from non-refractory material at existing mines and refractory material by using the POX Hub, specifically to:**

– continue to extract gold from non-refractory ores at the Albyn and Pioneer hard-rock gold mines in the Amur region using new technologies

– continue to extract gold from refractory ores at the Malomir and Pioneer hard-rock mines in the Amur region

– continue to explore areas at, near or adjacent to the Pioneer, Malomir and Albyn mines to expand and improve the Group's non-refractory and refractory mineral resources base

– enable and implement the treatment of refractory concentrate from third parties at the POX Hub

– consider opportunities to form partnerships or joint-ventures with other participants in the Russian gold mining industry using the facilities and expertise at the POX Hub such as the conditional JV agreement with GMD Gold.

# Our Strategic Objectives

## Our strategic objectives

In order to fulfil our strategic plans, we have five strategic objectives:

**1** Value-adding exploration: extend mine life at all assets

**2** Asset development using in-house expertise: seek opportunities to enhance the application of latest technologies

**3** Operational efficiencies: improve performance of all the operations to control and reduce costs

**4** Enhance monitoring and evaluation systems to strengthen financial resources and to achieve all financial targets

**5** Operate responsibly and safely: sustainable management of all natural resources and rigorous safety procedures to maintain the highest health and safety standards

**KPIs are a tool to monitor progress in implementing strategy and adhering to strategic objectives**

Risks to strategy implementation and strategic objectives constantly monitored

# Key Performance Indicators (KPIs)

Petropavlovsk's core objectives and strategy define key performance indicators (KPIs) that the Group monitors, targets and measures. The KPIs fulfil the following roles:

- To give senior management a measurable and objective standard to evaluate the Group's overall performance and to track its progress from an operational, growth and sustainable development perspective
- To provide managers and their teams with a benchmark by which they can measure current performance and enable them to focus on the areas that are critical for successful achievement of the Group's goals
- To give guidance to the Remuneration committee to maximise employee retention rates.

1

## Operational Efficiencies

**What this means and why it is important to us**
In order to meet our business aim, we need to generate healthy gold sales at competitive margins. To achieve this, it is essential that we operate efficiently by employing careful mine planning and focusing on ways to reduce costs and boost profitability.

**Key highlights from 2015**

- Full year 2015 gold production of 504.1koz in line with the Company's revised strategy
- Significant decrease in mining and processing costs per unit at each of the Group's mines
- Continued disclosure of All-In Sustaining Costs ('AISC') and All-In Costs ('AIC') demonstrated further reductions due to a number of cost-saving measures
- 10% reduction in AISC (US$972/oz for 2015 and US$874/oz for 2014) and 14% reduction in AIC (US$932/oz in 2015 and US$1087/oz in 2014).
- 13% reduction in Total Cash Costs per ounce ('TCC/oz') to US$749/oz compared with 2014 (US$860/oz)
- Decrease achieved mainly due to the continued implementation of our cost-optimisation programme and a 59% average depreciation of the rouble against the US dollar
- 24% reduction in TCC/oz at Pioneer compared with 2014 (US$625/oz vs. US$818/oz)
- 10% reduction in TCC/oz at Albyn compared with 2014 (US$747/oz vs. US$830/oz)
- 2015 TCC/oz for Pokrovskiy and Malomir of US$871/oz and US$1,092/oz respectively in line with the previous year (2014:US$885/oz and US$1,031/oz respectively). TCC at Pokrovskiy and Malomir achieved in spite of 10% and 31% respective decreases in processed grades at both mines and a 26% increase in the stripping ratio at Malomir
- Cash costs at Malomir were affected by the scattered positioning of multiple deposits mined in the first half of the year.

**2016 plans**

- Targeted gold production of 460-500koz in line with the Group's new strategy
- TCC/oz of gold produced scheduled to decrease further to c.US$700/oz
- Further implementation of our cost-cutting programme in 2016 using systematic analyses of operating processes
- Optimised capital allocation.

**Additional future plans**

- The production plan for 2017-2020 envisages a 10-20% increase in annual average production
- Development of underground operations using the latest technologies
- Development of POX project in JV with third party
- Selective, accretive acquisitions.

## KPIs

### Total attributable gold production ('koz)

**Definition**
Measured in troy ounces, attributable gold production is the total of the gold produced from the Group's four hard-rock mines, 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 is adjusted for the movement of gold still in circuit.

**Relevance**
Gold production underpins our financial performance as the majority of Group revenue is attributable to the sale of the gold produced by the Group. The indicator also demonstrates the strength of our operational and managerial teams to deliver against the mine plan.

**Performance in 2015**
In 2015, the Group produced 504.1koz of gold, in line with the Company's revised strategy. This was lower than the 624.5koz of gold produced in 2014, in part due to the decrease in the grades processed through the mills and absence of the alluvial production due to the sale of alluvial assets.

Production from all assets in the fourth quarter of 2015 was 149.4koz (in the fourth quarter 2014: 168,200koz).

**Going forward**
The Group is targeting production of 460-500koz of gold in 2016. For the years 2017-2020, the Group is budgeting annual gold production of c.650koz – 700koz from both refractory and non-refractory ores, with some year-on-year variations. In line with the new strategy, the production plans are based on maximising profitability and optimising the Group's cash flows.

In line with our strategy, at the date of publishing the Group had entered into an agreement to acquire Amur Zoloto, discussed further on pages 60 to 61 of this report. The acquisition would add significant scale to Petropavlovsk's reserve and resource base in the Far East of Russia.

### KPIs

## Operating Expenses

## Total average costs (US$/oz)

## Total cash costs per ounce of gold produced for hard-rock mines (US$/oz)

**Definition**
The total cash cost per ounce is the cost of producing and selling an ounce of gold from the Group's hard-rock operations.

Cash costs for hard-rock mines are the cost of producing and selling an ounce of gold from the Group's hard-rock mines (Pokrovskiy, Pioneer, Malomir and Albyn). The Group's four hard-rock mines are its key assets, in 2015 producing 100% of the Group's total gold production for the year. The Board and Executive Committee constantly monitor cash costs at the Group's hard-rock mines and work on their improvement.

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.

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

**Performance in 2015**
Total cash costs for the Group's mines decreased from US$860/oz in 2014 to US$749/oz in 2015, primarily reflecting the effect of cost optimisation measures undertaken by the Group in the declining gold price environment and further rouble depreciation.

**Going forward**
The Group expects a significant decrease in its total average cash costs of production in 2016 to lower than US$700/oz, due to its cost-cutting programme and the devaluation of the rouble.

Go to pages 69 to 70 for further information on 2015 cash costs

## All-In Sustaining Costs

## All-In Costs

**Definition**
All-in sustaining cash costs ("AISC") include both operating and capital costs required to sustain gold production on an ongoing basis. All-in costs ("AIC") are comprised of AISC as well as capital expenditures for major growth projects or enhancement capital for significant improvements at existing operations. AISC and AIC are calculated in accordance with guidelines for reporting AISC and AIC published by the World Gold Council in June 2013. For a calculation of AISC and AIC, please refer to the section AISC and AIC of the Chief Financial Officer's Statement on page 71 of this report.

**Relevance**
In 2014, following the publication of the World Gold Council's guidelines for reporting AISC and AIC, the Group took the decision to monitor its AIC and AISC, in addition to TCC/oz. This enables the Group to track and benchmark the ongoing efficiency and effectiveness of its operations to ensure it maintains healthy margins.

**Performance in 2015**
Following industry best practices, the Group calculated and disclosed its AISC and AIC for the first time for the period of 2014, which have since demonstrated a continuous decrease.

In 2015, AISC decreased to US$874/oz from US$972/oz in 2014. This reflects the reduction in TCC as well as lower central administration expenses and sustaining capital expenditure related to existing mining operations.

AIC decreased from US$1,087/oz in 2014 to US$932/oz in 2015, reflecting the decrease in all-in sustaining costs explained above as well as decreases in exploration expenditure and capital expenditure related to new projects.

# 2

## 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 2015**

- Refinancing plan completed on 18 March 2015 reducing Group debt by c.US$200 million, consisting of:
  - A pre-emptive 157 for 10 Rights Issue at £0.05 per Ordinary Share
  - A new, five-year US$100 million convertible bond
- Positive contribution from hedging activities of US$20/oz to the average realised gold price of US$1,178/oz (2014: US$1,331/oz)
- Further 20% reduction in central administration costs to US$30.4 million (2014: US$38.2 million)
- Further c.66% reduction in total gold capital expenditure to US$32.6 million (2014: US$97 million) in line with guidance
- Underlying EBITDA of US$173 million (2014: US$252 million) – a decrease due to a lower year on year average realised gold price and production
- Further decrease in working capital of US$43.5 million as a result of continued optimisation, mainly due to decreases in ore stockpiles and in stores and spares
- Net cash flow from operating activities (continuing operations) of US$111 million (2014: US$169 million)
- Net debt as of 31 December 2015 of c.US$610 million, down 34% from US$930 million as at 31 December 2014
- Forward contracts to sell 71,551oz of gold at an average price of US$1,116/oz outstanding as at 31 December 2015.

**2016 plans**

- Continued focus on net debt reduction by maximising operating margins and free cash fl ows. In line with this strategy, net debt is expected to decrease below US$570 million by the end of 2016, assuming an average gold price of US$1,200/oz for the rest of 2016
- Conservative borrowing policy with a medium-term Net Debt/EBITDA target of 1.5:1
- Further work on reduction in operating costs in 2016 using a systematic analysis of operating processes and capabilities to develop an optimal, sustainable operating model for each mine
- Optimised capital allocation
- A comprehensive control over total capital expenditure for gold projects in 2016 of US$70 million (US$10 million exploration programme and US$60 million development and maintenance)
- Forward contracts to sell an aggregate of 37,850 ounces of gold at an average price of US$1,116 per ounce are outstanding as at 28 April 2016
- A review of the pressure oxidation (POX) project, taking into account progress with the conditional JV agreement with GMD Gold, announced 28 April 2016. Capital expenditure for the fi nalisation of construction of the POX plant is currently estimated at c.US$140 million due to the depreciation of the rouble.

Please refer to pages 60 to 61, for more information on our conditional JV agreement with GMD Gold to fi nance the completion of the POX Hub, announced 28 April 2016.

**Additional future plans**

- Continued focus on net debt reduction by maximising operating margins and free cash flows.

## KPIs

## 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 2015**
2015 saw a positive contribution of US$20/oz to the average realised gold price of US$1,178/oz (2014: US$1,331/oz) from forward-sales contracts of 178,449oz, which matured during the year.

**Going forward**
Forward contracts to sell 71,551oz of gold at an average price of US$1,116/oz outstanding as at 31 December 2015. The Group acquired 150,000oz of gold put options with a strike price of US$1,150/oz in October 2014 as part of a downside protection strategy and maturing over the period from January 2015 to June 2015.

Further details on the components of Group revenue, cash fl ow and hedge arrangements may be found on pages 66 to 67

## Capital expenditure (US$m)

**Definition**
Capital expenditure is the funds required by the Group to explore and 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 in line with the Group's strategy and provide an optimal allocation of the Group's funds.

**Performance in 2015**
The Group's estimated development and maintenance capital expenditure for 2015 was c.US$32.6 million, representing a 7% improvement on the original estimate and a 66% decrease compared to the previous year. Exploration works were the key focus of expenditure, predominantly at Pioneer and Albyn, to enlarge and improve their mineral reserve bases in order to increase their profitability and to prolong their mine life.

**Going forward**
The Group's capital expenditure requirements are estimated to be around US$70 million in 2016. This will be split between continuing the Group's exploration programme (US$10 million) and development and maintenance (US$60 million). The development works will focus predominantly on constructing underground operations at Pioneer and fi nalising the POX Hub at Pokrovskiy.

A breakdown of 2015 capital expenditure may be found on page 75

## Net debt (US$m)

**Definition**
Net debt is set out in note 30 to the consolidated fi nancial statements. Net debt is incurred in order to assist with the fi nancing of project development.

**Relevance**
Net debt is a measure of a company's ability to repay its debts if they were all due today and thus, it helps the management to estimate whether a company is appropriately leveraged.

**Performance in 2015**
In 2015, the Company achieved a reduction in net debt as forecast to make c.US$610 million as at 31 December 2015 due to refinancing, focus on financial discipline and cash optimisation.

**Going forward**
Going forward, the Group will focus on reducing net debt by maximising operating margins and free cash flows. In the near-term, this target will be assisted by a disciplined allocation of funds towards capital expenditure, steady gold production using existing processing facilities, and a planned systematic analysis of operating processes and capabilities. This is in order to develop an optimal, sustainable operating model for each mine to secure a further reduction in operating costs in 2016.

The Group is forecasting its net debt to decrease to c.US$570 million by the end of 2016 (assuming an average gold price of US$1,200/oz for the remainder of 2016).

Net debt is set out in note 30 to the consolidated fi nancial statements.

## Earnings

### Underlying EBITDA (US$m)

**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 2015**
For 2015, the Group generated underlying EBITDA of US$173 million compared with US$252 million in 2014. This reduction was mainly due to a decrease in the average realised gold price from US$1,331/oz in 2014 to US$1,178/oz in 2015 and a decrease in physical ounces sold. This effect was partially mitigated by the improvement in total cash costs, which had a net US$53.5 million positive contribution to underlying EBITDA in 2015.

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

A reconciliation of loss for the period from continuing operations 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 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 2015**
Net loss for 2015 was US297.5$/oz million, compared with a net loss of US$347.7 million in 2014.

Net loss from continuing operations amounted to US$190 million, compared to net loss of US$182.2 million in 2014.

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

A reconciliation of loss for the period from continuing operations and underlying EBITDA is set out in note 35 to the consolidated financial statements

### Basic earnings/(loss) per share (US$)

**Definition**
Basic earnings per share ('EPS') is the profit or loss for the period attributable to equity holders of Petropavlovsk PLC divided by the weighted average number of ordinary shares during the period.

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

The total number of Ordinary Shares in issue as at 31 December 2015 was 3,300,561,697 (31 December 2014: 197,638,425).

**Performance in 2015**
Basic loss per share for 2015 was US$0.09 compared with US$1.33 in 2014.

Basic loss per share from continuing operations for 2015 was US$0.07 compared to US$0.94 basic loss per share for 2014. The key factor affecting the basic loss per share was the increase of the weighted average number of Ordinary Shares from 196,423,244 for 2014 to 2,657,332,030 for 2015.

**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 reconciliation of loss for the period from continuing operations and Underlying EBITDA is set out in note 35 to the consolidated financial statements.

# 3

## Value-adding exploration

**What this means and why it is important to us**
Our exploration strategy remains the same as in the last two years. We aim for sustainable, organic growth at our existing operations, using our in-house exploration team to identify quality gold reserves. Our team are well-practised in assessing the highest-value deposits, profitable throughout the commodity cycle. In order to prolong the life of our mines and fast track what we find into doré gold bars with minimum capital expenditure, we are continuing to explore our mine sites and look for quality resources that could be processed in our existing facilities. We intend to maximise the value of our current operational mines. In the longer term, we plan to seek out resources that could be suitable for processing in the POX Hub, once commissioned.

**Key highlights from 2015**

- Successful exploration identified c.100koz of additional non-refractory JORC Ore Reserves, offsetting 2015 mine depletion
- All new Reserves and Resources discovered close to existing processing facilities
- Drilling discovered, extended or confirmed mineralisation in several areas of the Pioneer, Malomir and Albyn mine sites, notably at North-East Bakhmut, Andreevskaya, Alexandra and Brekchievaya (Pioneer), at Berezoviy, Quartzitovoe (Malomir) and at Elginskoye and Afanasevskoe (Albyn)
- At non-refractory zones Andreevskaya and North East Bakhmut, high-grade down dip extensions discovered adding c.160koz to JORC Mineral Resources at an average grade of 9.4g/t for potential underground mining
- JORC Resource of c.266koz at an average grade of 7.41g/t for potential underground mining established at Quartzitovoe (Malomir). This resource is still open in a down-dip direction, offering potential for further increase

- C.140koz of additional JORC Probable Ore Reserves established, which are suitable for processing through the Albyn processing plant
- New non-refractory deposit Afanasevskoe confirmed c.17km south-west of the Albyn processing plant
- Technical studies confirmed the feasibility of developing high-grade, underground mines at Pioneer and Malomir
- Highly prospective Sosnovaya license acquired at government auction in December 2015.

**2016 plans**

- Continued exploration of areas potentially suitable for processing in existing plants and/or heap-leaching facilities, minimising immediate capital expenditure outlay
- Continued work to classify new findings as JORC Mineral Resources with continued focus on the high-grade areas at Pioneer and Malomir mines
- Continued work to upgrade Mineral Resources into Ore Reserves
- Exploration of deep high-grade extensions below Pioneer and Malomir's operational open pits in order to expand mineral resource for the underground mines.

**Mid to Long Term Plans**

- Recommence exploration for refractory resources once the POX Hub has been commissioned (the project is currently on hold). The Group is proposing a Joint Venture ("JV") with GMD Gold, a reputable Russian mining operator, to accelerate and complete the development of the POX Hub.

Please refer to Future Development on page 60 to 61 for more information on the proposed joint venture.

## Mineral Resources

**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 medium to long-term production growth potential. In line with 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 has enabled the Group to replenish gold Resources depleted from its operations in recent years and increase its Mineral Resource base.

**Progress in 2015**
During 2015, due to the success of the Group's exploration programme, Mineral Resources for the Albyn project area increased by c.370koz, despite depletion of c.170koz from mining, providing a net increase of c.540koz. c.160koz and c.266koz of high grade Mineral Resources, expected to be suitable for underground mining were established at Pioneer and Malomir. A new non-refractory deposit, Afanasevskoe, was confirmed near the Albyn processing plant.

**Going forward**
Going forward, the Group is striving to continue to develop a high quality non-refractory resource base for both open pit and underground mining, and in the longer term to develop its refractory resource base.

## Ore Reserves

**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. The Group has been placing a strong emphasis on finding new Ore Reserves through exploration in line with its strategy. By implementing this, the Group has been able to replenish the majority of its Ore Reserves depleted from its operations.

**Progress in 2015**
During 2015, the Group was able to offset mine depletion of c.605koz. Ore reserve estimates for Elginskoe (Albyn) and for underground mining at Pioneer and Albyn currently being prepared are expected to increase Group JORC Ore Reserves during 2016.

**Going forward**
Going forward, the Group is striving to continue to establish a high quality non-refractory reserve base for both open pit and underground mining and, in the longer term, add to its refractory reserves.

# 4

## Asset development using in-house expertise and innovative processing technologies

Our in-house expertise is key to our development strategy. Within the Group, various companies operate that specialise in specific areas of mine development. Their work has enabled the Group to convert its assets into producing mines and optimise processing parameters there. By working with third parties these companies have also had a broader positive effect on the Russian mining industry as a whole.

It is difficult to quantify the work of our in-house teams by using metrics such as key performance indicators. For us, acknowledging the contribution they are making to Group development and the recognition our in-house teams have received from third-parties is a better way to measure our success.

# Key Performance Indicators (KPIs) continued

– 100% of the Group's analytical needs are met by its laboratory network, from assaying samples collected by field geologists, to monitoring work for the Group's ecological department
– Group laboratories also conduct work for third-parties, having a wide-range of analytical methods at their disposal including fire assaying, atomic absorption, spectroscopy and mineralogical analysis, x-ray crystallography and physical property determinations
– Our R&D company Gidrometallurgiya has particular expertise with refractory ores and has provided scientific research into the POX Hub. It also conducts third party work.

**Future plans**

– Plans for the construction of underground mines at Pioneer and Malomir, which will produce gold from high-grade, non-refractory reserves.

# 5

## Operating Responsibly

**What it means and why it is important to us**

Petropavlovsk has always made employee health and safety a major priority. Our dedication to providing safety in the workplace is supplemented by our environmental protection measures, which include rigorous environmental monitoring of all sites and nearby territories.

Additionally, the Group supports constructive dialogue with local communities and ensures that local areas benefit from our presence. This is achieved through direct investments and support from our social and economic development department, who provide education and job opportunities to local people and communities via joint venture projects.

**Key highlights from 2015**

– Lost-time injury frequency rate (LTIFR) in 2015 of 2.63 accidents per million man hours worked
– Improved health and safety training schemes to raise HS awareness
– Modified accident alert system to embrace a wider range of employees
– Strict compliance with local legislation to provide for high-quality environmental performance.

**Additional future plans**

– Various social projects to support local communities via the Petropavlovsk Foundation
– Continued and extended training for current and prospective employees through the on-site and Zeya mining college programmes
– Continued regular monitoring and control of health and safety performance across the Group at all sites
– Rigorous control in the sphere of environmental protection to maintain high level performance
– Continued monitoring of greenhouse gas emissions and other potential externalities with the view to mitigate any effect.

## Lost Time Injury Frequency Rate

**LTIFR** (per million man hours worked)

| | |
|---|---|
| **2015** | **2.63** |
| 2014 | 2.50 |
| 2013 | 3.27 |
| 2012 | 2.40 |
| 2011 | 1.90 |

**Definition**

Lost Time Injury Frequency Rate (LTIFR ) is the number of accidents, including fatalities, taking place on Group premises within the reported period, measured against the number of man hours worked during that period per million man hours worked. LTIFR for the Group excludes IRC, which has separate HSE management systems.

**Relevance**

To guarantee that the Group's occupational health and safety policies are successful, which includes providing protective measures and equipment and mitigating risks, the health and safety team continues to strive to maintain a safe environment at the Group's operations.

One of the key indicators that the Group relies upon to identify trends and areas of focus is the LTIFR. This is an integral part of a complex system covering the database of statistics, training programmes and operating parameters used for regular analysis and control. The measure ensures the Group's compliance with Russian legislation and provides the Group with a basis for continuous improvement.

**Performance in 2015**

For the year ended 31 December 2015, Group operations recorded a LTIFR of 2.63 accidents per million man hours worked.

Regrettably there was one fatal accident during the year, which took place at the Malomir mine in October 2015. This was due to an employee inhaling sodium cyanide gas while performing repair works at the process plant.

The Group, which is striving to achieve zero fatal accidents, took the following action:

– Special purpose training was conducted with all of the process plant workers regarding the handling and use of highly toxic substances, measures and actions in the event of spillage and first aid in case of poisoning
– Safety meetings were held with the workers of all subsidiaries to bring to their attention the causes and circumstances of the fatal accident
– The Group Fatal Accidents List, which covers all fatal accidents since the company's inception, has been included into the safety induction lecture in order to try to prevent those types of accidents in the future.

### Going forward

In the effort to lower the LTIFR across subsidiaries and achieve zero fatalities, the Group is constantly introducing new concepts and improving existing systems. The following measures were undertaken in 2015, resulting from on-site and joint meetings and discussions embracing health and safety officers and company management:

- The Fatal Accidents List was incorporated into the Safety Induction for new employees and became part of the refresher course for returning employees
- The updated accident alert system ensures that information about an accident occurring is communicated to all relevant employees, including heads of departments across the Group, in a timely fashion
- The implementation of a "near-miss" accident reporting system was successfully merged with the Russian three-stage reporting system to prevent potential accidents and eliminate dangerous circumstances.
- As a result of the introduction of the near-miss/three-stage system, preventative discussions are held regularly to make workers aware of the most important areas of focus
- Among the stricter actions are verbal and written warnings upon health and safety violations and compulsory safety training.

## Greenhouse Gas ('GHG') Emissions

### Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. The Group is not responsible for any emission sources that are not included in our consolidated statement.

We have adopted methodology for planning and reporting Green House Gases (GHG) according to the laws of the Russian Federation. We have used one of the formulae, as approved under this legislation, for calculating the CO2 equivalent (CO2e) associated with our consumption of Diesel, Kerosene, Benzene, and Coal.

Under Russian legislation, the GHG emission associated with grid electricity is reported by the generator. However, for transparency purposes, the GHG emission associated with our consumption of electricity has been reported below. This is measured in tonnes of carbon dioxide and calculated using the DEFRA 2015 Scope 2 electricity conversion factor for the Russian Federation of 0.44982 kilograms of CO2 per kilowatt hour.

All emissions quoted below are Gross, as no deductions for exporting renewable energy or purchasing certified emission reduction are applicable.

As a producer of gold, our prime metric is the amount of gold produced in a calendar year, measured in ounces. In 2015, Petropavlovsk produced 504,100ozs and we have used this figure to calculate our intensity metric.

**Global GHG emissions data for period 1 January 2015 to 31 December 2015**

| Emissions from: | Reporting year<br>01.01.2015 – 31 12.2015 | Comparison year<br>01.01.2014 – 31 12.2014 |
|---|---|---|
| Combustion of fuel and operation of facilities (Tonnes of CO2e) | 260,194.9 | 281,657.7 |
| Electricity, heat, steam and cooling purchased for own use. (Tonnes of CO2) | 276,144.1 | 268,066.0 |
| Emissions reported above normalised per ounce of gold produced. (Tonnes of CO2e / oz) | 1.07 | 0.88 |

### Source of Emissions

Emissions come from the following sources:

*Diesel* – as used in our fixed equipment including crushers, screens and pumps, and mobile equipment including excavators, trucks, bulldozers and cars.

*Kerosene* – as used in our helicopters.

*Benzene* – as used in our cars.

*Coal* – as used in our heating plants. All heat produced is used for our own consumption.

### Verification / Assurance

Quarterly reports of emissions are sent to the Russian Environmental Agency Rosprirodnazor against an approved plan.

### Relevance

Monitoring GHG emissions enables the Group to look for opportunities to minimize its carbon footprint. Reducing emissions may also help decrease operating expenditure.

### Going forward

The Group continues to monitor GHG emissions and reviews all relevant data in order to identify opportunities for improvement.

# Environmental, Safety and Social Report

**Introduction**
At Petropavlovsk, we operate in line with five core values: responsibility, integrity, sustainability, innovation and problem solving and excellence. As a Group, we pride ourselves in maintaining solid relationships with those we work with. This means approaching development together with local communities and authorities, addressing any feedback or concerns. It means understanding that our people are a key asset and investing in them accordingly. It means ensuring that our operations meet the highest environmental standards.

The Group believes this approach has contributed to its success to date. In Q1 2015, independent mining consultants Wardell Armstrong (WAI) reported that environmental and social performance at the Petropavlovsk assets is managed well and to a high standard. All four projects are fully permitted and each aspect has been reviewed and approved by State expertise. Social and community management is well established and WAI understands there is almost universal support for the operations within the local community. All four projects are fully permitted with each aspect reviewed and approved by state expertise.

**Contribution to the local economy**
The Group remains one of the largest employers in the Amur region and a major tax payer. We provide additional job opportunities by investing in education and training, using local suppliers where possible to help stimulate the local economy.

**Working hours and conditions**
All employees are issued with contracts detailing their working hours, paid annual leave and other guarantees, in line with Russian or UK legislation (as applicable).

At the mines, employees work to specific shift patterns of either a fortnight, a month, or 45 days; as the mines are located in remote areas, it would not be practical to commute. Once each shift is complete, they have the same amount of time off work. Employees stay in purpose-built accommodation on-site, with recreational facilities and modern conveniences. The shift patterns enable employees to better maintain their family commitments whilst ensuring the mines can operate throughout the year.

**Safety**
Petropavlovsk is committed to providing its employees with a safe working environment and fully complies with Russian labour legislation, the most significant of which is the Labour Code of the Russian Federation. The Group has health and safety systems in place that support the Code and as required conducts regular reviews of labour protection in the workplace.

Petropavlovsk regularly examines all internal policies and procedures to ensure they remain robust and effective. Occupational health and safety (OHS) risks are identified, reviewed and evaluated to mitigate their impact. All accidents are recorded and reported to the Executive Committee and Board. A Board-level Health, Safety and Environmental Committee meets regularly and one of their duties is to assess and evaluate OHS management systems. Petropavlovsk also conducts regular on-site inspections to ensure all operations comply with regulations.

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

**Anti-bribery and corruption**
The Company has a zero-tolerance approach to corruption and bribery.

The Group has adopted policies and procedures on preventing, combating and dealing with bribery and corruption, including a Code of Conduct and Business Ethics (the ‘Code’). The Code, which has been circulated to all employees, sets out the procedures that employees are expected to follow. The Company holds meetings with employees, in London, Moscow, Blagoveshchensk and directly at the mines, to provide training and answer questions from employees on these matters, ensuring that the Group’s policies are embedded throughout its operations. Any amendments to anti-corruption legislation of the Russian Federation and the Company’s policy in this regard are also discussed at meetings with the Group’s stakeholders.

For the purpose of confidentiality and to protect the rights of employees who may be subordinates of members of senior management or may be dependent on them in other ways, two Group representatives in Russia have been appointed as points of contact for any employees of the Group who wish to discuss, on a confidential basis, the subject of compliance with the rules and regulations of the Code. Any matters of concern will then be raised with the Company Chairman.

Ms Anna Makhina, Head of Legal, Moscow, was invited to speak at the 2015 ‘Anti-Corruption in Russia and CIS’ annual conference, a high-profile compliance event, held in Moscow. This gave her the opportunity to share her experience with others and obtain their views on how to successfully implement anti-corruption policies in Russian companies. The Group Head of Legal Affairs and the Company Secretary attend global anti-corruption seminars in the UK. The Board considers it important that representatives of the Company are involved in this important area of compliance and this way we can both learn from and share their knowledge and experience.

Given the importance of anti-bribery matters they are now considered by the Executive Committee, which meets frequently. The responsibility for actions proposed as appropriate is taken by the Company Chairman, who reports on this formally to the Board.

**Equal opportunities**
The Group is committed to providing equal opportunities and pay in all aspects of employment, regardless of gender or background, an approach that Russian and UK legislation also requires. Despite this, the Company has a disproportionately high number of male employees compared to female employees, a reflection of the fact that the mining sector has been historically male-dominated.

As at 31 December 2015, 1,813 employees were female, representing c.22% of the Group’s total workforce.

Women have the opportunity to reach the highest levels of senior management. The Board considers its senior management to be the Executive Committee, which is responsible for managing the company day-to-day, and comprises three Executive Directors and six members of senior management. As at 31st December 2015, two of its members were female, representing 22% of total membership.

The Board is mindful of the continuing focus on the value of gender diversity, though it has not and does not intend to set a target for the number of female Board members it has. It aims to appoint the best candidate available for any role.

As discussed in further detail in the Nomination Committee report, Alya Samokhvalova was a Board member until 30 April 2015, when she resigned following the restructuring of the Board. Alya remains with the company in her joint role as Strategic Director and Group Head of External Communications.

**The Pokrovskiy Mining College**
Based near to our Pokrovskiy mine, the Pokrovskiy Mining College offers a range of residential and day college programmes. The Group established the college in 2008 with the aim of providing future employees with bespoke specialised training. The college aims to offer graduates employment opportunities and as such has regional benefits outside the Group. Since its inception, the college has trained more than 4,100 people and today offers 72 different courses.

**Charitable foundation**
The Group's commitment to promoting development in the Amur region led it to establish the Petropavlovsk Foundation in 2010. The Foundation aims to provide local communities with social, economic and cultural opportunities. Alongside improving quality of life, the Foundation's efforts are aimed at encouraging investment in the region by contributing to its appeal as a place to live and work. In organising its activities, the Foundation works closely with regional stakeholders, from federal groups to small businesses.

One of its principal efforts, the Foundation's Albazino archaeological project was developed with the aim of researching, preserving and promoting cultural heritage in the Amur region. 2015 was a landmark year for the project. It received funding from both the Ministry of Culture and Russian Geographical Society, along with a certificate presented by Russian President Vladimir Putin, who chairs the Society's Board of Trustees. A number of federal ministers also visited the archaeological site to attend the reburial of 17th century pioneers uncovered by the project.

During the year, the Foundation supported a range of causes that fall under its six target areas of strategic investment, a combination of sustained commitments and one-off donations:

– Education
– Child development
– Research and development
– Culture
– Quality of life
– Sport.

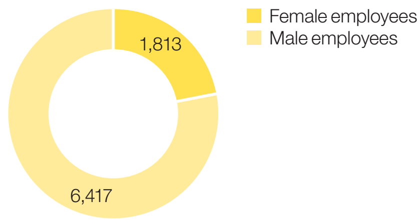
**Public Consultations**
Petropavlovsk ensures that local communities are actively involved in its development plans. If issues are raised, they are addressed through public consultation. None of these were held in 2015 but the Group continued to monitor circumstances in line with its commitment to maintaining good relationships with local communities and authorities.

**Environmental management**
The Group is committed to effectively managing environmental issues, operating in line with international best practice and upholding the highest standards as required by Russian law.

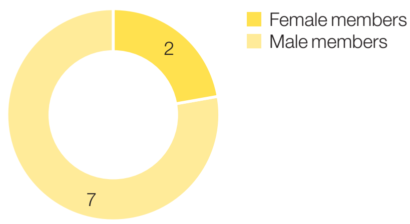
Certain Group activities require licences and permits from Russian authorities, such as mining and exploration, construction, handling hazardous waste and using local water supplies. These may detail limits and conditions to help protect the environment – on containing harmful substances, for example. In addition, Russian legislation requires the Group to draw up environmental impact assessments in order for mining project permits to be considered.

Throughout the life of each mine, the environment is monitored to identify any impact its activities might have on the surrounding ecosystem. Data is collected according to state-approved schedules and samples analysed in state-accredited laboratories. All Group operations hold licences with water usage quotas, which detail where water may or may not be used from. Pit water is purified before it is discharged and local water is continuously monitored. The Group's RIP plants use recycled water, which reduces the demand from local sources.

**Breakdown of total number of employees as at 31 December 2015**




**Breakdown of members of the executive committee as at 31 December 2015**




Waste management programmes are agreed with regulatory authorities in compliance with Russian legislation. The programmes detail standards and limits on what can be produced or disposed of. Data on waste is collected, logged and sent to regulatory authorities for review.

A number of Russian laws that govern the Group are designed to limit industrial impact on local ecosystems. Land may only be cleared within the limits of licenses and permits. Fishing, hunting, poaching and driving vehicles outside designated areas are forbidden.

To prevent harmful substances entering the atmosphere, the Group uses purification systems, anti-dust equipment and other protective facilities. Gas purification equipment is at all emission points and is monitored on a regular basis. Air quality monitoring includes carbon monoxide and dust emissions and is performed according to mining and environmental monitoring programmes, which are agreed in advance with federal authorities.

The Group has systems in place for the handling of cyanide.

# Risks to Our Performance

**Introduction**
Following completion of the Refinancing and, as detailed in last year's Report, the Committee structure and composition of the Committee was reviewed by the Board to ensure that it was appropriate. Given the reduced size of the Board and the new obligation introduced in the 2014 UK Corporate Governance Code to confirm that the Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity it was decided that the Board should no longer delegate the review of principal risks to a Risk Committee, but should itself undertake this assessment with the exception of principal financial risks, which would continue to be reviewed by the Audit Committee. The Audit Committee reports formally to the Board on its assessment of the Company's financial risks. Details of the Group's risk management structure and controls are provided below and on pages 90 to 94 of this Report.

Risk management is the responsibility of the Board and is integral to the ability of the Group to deliver on its strategic objectives. The Board is responsible for establishing and maintaining appropriate systems and controls to manage risk within the Group and to ensure compliance with regulation.

The Group's risk management system is monitored by the Board, with the exception of financial risks which are monitored by the Audit Committee under delegation by the Board. The risk management system aims to ensure that the Board's focus is on those risks with the highest potential impact. Risks that could impact the business are considered in the broad categories detailed in the table above.

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 on 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.

The Group's risk management process was considered by the 'new' Board in December 2015. Following this review it was agreed, that the Executive Committee should evaluate which of the risks detailed in the risk matrices constitute the material risks for the Group, in terms of potential impact and financial cost, with reference to its strategy and the operating environment. Those risks with the highest potential impact will then be presented to the Board. The financial risk matrix continues to be reviewed on a regular basis by the Audit Committee who reports formerly to the Board. The Executive Committee also focuses on any new and emerging risks.

The Board is responsible for overseeing the effectiveness of the internal control environment of the Group.

## Risk management framework

**Petropavlovsk PLC Board**

**Audit Committee** | **Executive Committee**

**Categorisation of risks and risk owners**

| Operational | Financial | Health, Safety and Environmental ('HSE') | Legal and Regulatory | Human Resources | Investor Relations and External Communications |
|---|---|---|---|---|---|
| Factors which impact output such as inadequate or failed internal processes, systems or people or external events | Financial risks include market, credit and liquidity risks, the ability to raise finance or meet loan covenants or foreign exchange exposure etc | Workplace hazards that could result in liability for the Group or have an adverse impact on output | Risks that create potential for loss arising from uncertainty due to legal actions or uncertainty in the application of laws or regulations | Risks associated with the recruitment and ongoing management of people | Includes risks such as poor management of market expectations and false investor perception |
| *CEO/COO* | *Chief Financial Officer* | *CEO/COO* | *Group Head of Legal Affairs* | *Chief Executive Officer* | *Group Head of External Communications* |

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

Petropavlovsk's principal risks and uncertainties are supported by the robust risk management and internal control systems and procedures noted on pages 26 to 39.

*Changes from principal risks identified in the 2014 Annual Report*

The risk relating to IRC's classification as an 'asset held for sale' and the possibility that the IRC assets may need to be reclassified at a future balance sheet date out of 'held for sale' as detailed in the 2014 Principal Risks table is no longer a risk to the Group.

On 7 August 2015, IRC ceased being an 'asset held for sale' following the completion of IRC's open offer, which raised net proceeds of c.US$50 million and diluted the Company's interest in IRC to 35.83%. IRC is now accounted for as an associate of the Group. Consequently there is no longer a risk that IRC will be re-consolidated on the balance sheet on a line-by-line basis, as detailed in the 2014 Annual Report.

However, Petropavlovsk continues to provide a guarantee to the Industrial and Commercial Bank of China ('ICBC') in respect of the US$340 million loan facility, of which c.US$276.25 million was outstanding at 31 December 2015, provided to Kimkano-Sutarsky Mining and Beneficiation Plant LLC ('K&S') by ICBC (the 'ICBC Facility') to fund the construction of IRC's mining operations at K&S. Please see page 34 for further information.

Other risks relating to IRC have been updated to reflect the revised status of IRC from a subsidiary and an asset held for sale to an associate.

In addition, the Group is currently in constructive negotiations with the Groups' Senior Lenders to reschedule its debt, further details of which are included in the 'Financial Risks' on page 32 and on page 92 of the Audit Committee Report.

The Executive Committee and management still monitor the risk that the Group is unable to attract key personnel who have the requisite skills and experience to satisfy the specific requirements of the business. However this is not currently considered as a 'Principal' risk to the Group, given the cost-cutting exercise undertaken by both the Group and many of its mining peers which has included a decrease in the Group's workforce and within the mining sector generally.

A new 'execution' risk has been included in the table due to the Group's strategy to recommence the construction of the POX Hub via a joint venture arrangement, and develop the underground mining project.

# Table of principal risks

## Operational risks

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **1. The Group is dependent on production from its operating mines in order to generate revenue and cash flow and comply with the production and sales covenants in certain of its borrowing facilities.**<br><br>**Factors which may impact the level of production include:**<br><br>**Severe weather conditions; and**<br><br>**Availability and failure of equipment or services.**<br><br>**Additional information**<br><br>Where We Operate pages 40 to 41 Operational Performance pages 42 to 49 | The Group's assets are located in the Russian Far East, a remote 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.<br><br>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. | 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.<br><br>Pumping systems are in place and tested periodically to ensure that they are functioning.<br><br>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.<br><br>The Group has a number of contingency plans in place to address any disruption to services.<br><br>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.<br><br>Equipment is ordered with adequate lead time in order to prevent delays in the delivery of equipment. | No change |

**The symbols indicate how the Company considers that these risks have changed since 2014.**

**↑ Increased risk** **N New risk** **→ No change**

## Operational risks continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **2. Failure to execute various construction and development projects including the completion and the commissioning of the Pressure Oxidation (POX) Hub and the underground mining project**<br><br>**Additional information**<br>Future Development pages 60 to 61 | The Group's long-term strategy relies on the successful completion of various projects including the successful commissioning of POX and the implementation of the underground mining project. Failure to deliver these projects within the agreed budget and timeframes may have an adverse impact on the Group's growth plans and its future profitability.<br><br>Failure to deliver these projects would also reduce the Group's ability to extract value from high quality Reserves, but difficult to extract, gold at Malomir. | An active maintenance program has been on-going, since the Board's decision in May 2013, to defer the start-up of the POX Hub, to preserve equipment at completed sections of the plant and to keep facilities on standby so that full scale development could be recommenced in the future.<br><br>The POX Hub will be delivered together with an excellent team of specialists. The Group has a pilot plant in Blagoveshchensk where it has previously undertaken bulk sample testing.<br><br>As detailed in the Strategic report, the Board has approved a joint undertaking with a reputable industry player to complete construction of the POX Hub and provide the processing plant for refining refractory gold ores and float concentrates extracted by both parties. This is subject to shareholder approval.<br><br>An engineering study was carried out on underground mining at Pioneer and a detailed proposal prepared. Based on the initial results of the study, these projects are expected to be highly profitable. The Group will continue to work with professional and reliable consultants as necessary to ensure that the underground project can be delivered within the agreed budget and timeframes.<br><br>The Executive Committee and the Board will closely monitor these projects. | N<br>New risk |

# Table of principal risks

## Operational risks continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **3. The Group's activities are reliant on the quantity and quality of the Mineral Resources and Ore Reserves available to it.**<br><br>**Additional information**<br>Exploration Report, Reserves and Resources pages 50 to 59 | Exploration activities are speculative, time-consuming and can be unproductive. In addition, 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 in may not result in the expansion or replacement of the current production with new Reserves or operations. | 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.<br><br>The Group's exploration budget is fixed for each asset at the start of each financial year depending upon previous results. In 2015, the Group continued to focus its exploration programme on areas at or close to its four existing operating mines and in particular, on finding new, non-refractory resources. 2015 exploration results were reviewed by independent mining experts Wardell Armstrong International.<br><br>Significant progress has made towards developing Ore Reserves for underground mining from Q3 2015. An engineering study was carried out by external consultants during the year on Pioneer underground mining. Based on the initial results of the study the Board expects that these projects will be highly profitable with the potential to contribute high-margin ounces to the Group's production schedule.<br><br>As detailed in the Strategic Report, the Board has approved a joint undertaking with a reputable industry player to complete construction of the POX Hub, which will provide the processing plant for refining refractory gold ores and float concentrates extracted by both parties. This is subject to shareholder approval. | → No change |

## Operational risks continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **4. The Group's Mineral Resource and Ore Reserves are estimates based on a range of assumptions.**<br><br>**Additional information**<br>Exploration Report, Reserves and Resources pages 50 to 59 | The Group's Mineral Resources and Ore Reserves are estimates based on a range of assumptions, including the results of exploratory drilling, 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.<br><br>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.<br><br>These laboratories have the capacity to conduct assaying, metallurgical testing and sample analysis to establish the gold grade, mineralogical composition and geotechnical properties of the ore.<br><br>The Mineral Resource and Ore Reserve estimates included in this Report for the Group's four principal gold deposits located in the Amur region, Far East Russia, prepared in accordance with the guidelines of the JORC Code (2012) were reviewed and signed-off by Wardell Armstrong International ("WAI") in April 2016. WAI is an independent consultancy that has provided the mineral industry with specialised geological, mining, and processing expertise since 1837.<br><br>WAI has considerable knowledge of the Group's assets located at Malomir, Albyn, Pioneer and Pokrovka, having previously been the Independent Technical Engineer reporting Mineral Resources and Ore Reserves on an annual basis. In addition, WAI completed a comprehensive independent review of all gold exploration assets held by the Group in 2011 and again in 2014. As part of the 2015 review WAI conducted a detailed assessment at each of the Group's mines.<br><br>In addition, the Company has adopted a gold price assumption of US$1,100/oz for Ore Reserve estimates, which is lower than the current market price, broker forecasts and assumptions used by some of the Group's peers. | **No change** |

# Table of principal risks

## Financial risks

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **1. Lack of funding and liquidity to allow the Group to:**<br>**i. Support its existing operations;**<br>**ii. Invest in and develop its exploration projects;**<br>**iii. Extend the life and capacity of its existing mining operations; and**<br>**iv. Refinance/repay the Group's debt as it falls due.**<br>**If the operational performance of the business declines significantly the Group will breach one or more of the financial and production covenants as set out in various financing arrangements.**<br><br>**Additional information**<br>Chief Executive's Statement on pages 6 to 7<br>Chief Financial Officer's Statement on pages 66 to 77<br>Audit Committee Report on pages 89 to 94 | Adverse events or uncertainties affecting the gold price and/or the global financial markets could affect the Group's ability to refinance existing debt or raise additional finance in the capital markets. It could also in future lead to higher borrowing costs.<br><br>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 only be available on unfavourable terms. The Group may therefore be unable to develop and/or meet its operational or financial commitments.<br><br>The Group's borrowing facilities include a requirement to comply with certain specified covenants in relation to the level of net debt and interest cover. A breach of these covenants could result in a significant proportion of the Group's borrowings becoming repayable immediately. | The Refinancing was completed on 18 March 2015 and secured the immediate future of the Group.<br><br>Net debt was reduced from US$930 million at the start of 2015 to c.US$610 million as at 31 December 2015, as forecast, due to the Refinancing and focus on financial discipline and cash optimisation.<br><br>The Group is in advance negotiations with VTB and Sberbank (the "Senior Lenders") to extend and revise the maturity of its existing bank debt and to obtain relaxation of certain financial covenants.<br><br>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.<br><br>Details of the IRC financial related risk are provided on page 34. | ↑ **Increased risk** |

## **Financial risks** continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **2. The Group's results of operations may be affected by changes in the gold price**<br><br>**Additional information**<br>Gold Market Overview pages 8 to 9<br>Chief Financial Officer's Statement on pages 66 to 77 | The Group's financial performance is highly dependent on the price of gold. A sustained downward movement in the market price for gold 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. | The Executive Committee monitors the gold price and influencing factors on a daily basis and consults with the Board as appropriate.<br><br>The Executive and the Board review the Group's hedging position on a regular basis. During 2015, the average realised gold price achieved by the Group of US$1,178oz included US$20oz as a result of hedging.<br><br>During 2015, the Board decided to curtail production from marginally profitable sources of gold.<br><br>The successful cost-cutting programme, together with the continued weakness of the Rouble against the US Dollar, enabled the Group to achieve TCC/oz of US$749/oz during 2015.<br><br>The new strategy of the Group envisages an increase in production of high-margin ounces in the short-term and ensures sustainability of production in the medium- to long-term, whilst continuing to focus on cash cost optimisation.<br><br>As at 28 April 2016, the Group had outstanding forward contracts totalling 37,850oz at an average price of US$1,116oz. | **No change** |

# Table of principal risks

## Financial risks continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **3. Currency fluctuations may adversely affect the Group.**<br><br>**Additional information**<br>Chief Financial Officer's Statement on page 76 | The Group 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, whereas the depreciation of the Russian Rouble against the US Dollar tends to result in lower Group costs relative to its revenues.<br><br>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.<br><br>In addition, if inflation in Russia were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, the Group's business, results of operations and financial condition may be adversely affected. | The Group has adopted a policy of holding a minimum amount of cash and monetary assets or liabilities in non US Dollar currencies and operates an internal funding structure which seeks to minimise foreign exchange exposure.<br><br>The Russian Rouble also exhibits a high positive correlation with crude oil prices as Russia exports a large quantity of crude oil and is dependent on export revenues related to crude oil prices. As a consequence and due to other factors currently affecting the Russian economy, the outlook for the Russian Rouble remains weak.<br><br>The Group's operations benefitted from the continuing weakness of the Russian Rouble during 2015 and it is expected that it will continue to benefit during 2016, although crude oil prices may increase. | No change |
| **4. IRC Related risks**<br><br>**Funding may be demanded from Petropavlovsk under a guarantee in favour of ICBC**<br><br>**Additional information**<br>Audit Committee Report on pages 90 to 94 IRC 2015 Annual Report, which can be obtained at http://www.ircgroup.com.hk | The Company has a 35.83% interest in IRC, a Hong Kong Listed iron ore producer.<br><br>Petropavlovsk has provided a guarantee against a US$340 million project loan facility provided to K&S by ICBC to fund the construction of IRC's iron ore mining operation at K&S, of which c.US$276.25 million was outstanding at 31 December 2015. This loan is supported by Sinosure, the Chinese export credit insurance agency. In the event that K&S was to default on its loan, Petropavlovsk may be liable to repayment of the outstanding loan under the terms of the guarantee and other Group indebtedness may become repayable under cross-default provisions<br><br>However, under the terms of the Company's banking facilities with VTB and Sberbank, the Company is unable to provide any funds to IRC without the prior consent of these lenders. | On 19 April 2016, IRC announced that ICBC had granted waivers in respect of IRC's project finance facility with ICBC, including obligations to maintain certain cash deposits with ICBC, and the obligations of IRC and Petropavlovsk to comply with certain financial covenants. The waiver from the obligations of IRC and Petropavlovsk to comply with certain financial covenants will be effective immediately upon fulfilment of certain conditions precedent and up to and including 31 December 2017. Effective immediately upon fulfilment of the conditions precedent, ICBC has also granted IRC a waiver from the obligations to maintain cash deposits of c.US$26 million with ICBC during the period from 20 June 2016 to 30 June 2018 (both dates inclusive).<br><br>IRC's K&S facility is expected to be fully commissioned by the end of June 2016. Once commissioned K&S is expected to generate an operating margin even in the current lower price iron ore environment to generate sufficient cash to meet its borrowing obligations. | No change |

## **Financial risks** continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **5. IRC's results of operations may be affected by changes in the iron ore price**<br><br>**Additional information**<br>IRC 2015 Annual Report, which can be obtained at http://www.ircgroup.com.hk | The market price of iron ore can be volatile. Iron ore prices continued to decline during 2015. The iron ore price at the end of 2015 remained weak. The spot price of benchmark 62% iron content delivered to the Chinese port of Quingdao ended 2015 at US$43 per tonne although the iron ore price has recently seen an increase. The global oversupply of the raw material persists whilst the appetite of China, the largest bulk commodities consumer in the world, is getting smaller as its economy has entered into a "new normal" of slower growth pace. | The IRC Board announced on 14 December 2015 that it had decided that the Kuranakh mine should be put on temporary 'care and maintenance.'<br><br>The hot commissioning of the second and final phase of crushing and screening facilities at K&S has completed allowing production of pre-concentrate.<br>The processing plant is scheduled for handing over to IRC, from the contractor, by the end of June 2016. The processing plant will upgrade pre-concentrate to IRC's premium high grade 65.8% Fe concentrate for commercial sales. Once commissioned K&S is expected to generate an operating margin even in the current depressed iron ore markets. | **No change** |

# Table of principal risks

## Health, safety and environmental risks

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **1. Failures in the Group's health and safety processes and/or breach of Occupational Health & Safety legislation.**<br><br>**Additional information**<br>Our Business Model on pages 10 to 11<br>Environmental, Safety and Social Report on pages 24 to 25 | 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.<br><br>Board level oversight of health and safety issues occurs through the work of the HSE Committee.<br><br>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.<br><br>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.<br><br>The Group operates a prompt incident reporting system to the Executive Committee and the Board. There was one fatality during 2015 (2014: three). This fatality was reported immediately to the Chairman and to the Health, Safety and Environmental ("HSE") Committee. The incidents in both 2015 and 2014 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 any of these accidents. The HSE Committee discussed each of the fatalities in detail to identify whether any actions should be taken or further training provided to mitigate against any reoccurrence of a similar accident.<br><br>The HSE Committee received a report from the General Director of Malomir, regarding the fatality in 2015, this included details of all actions and training that was undertaken at the plant following the fatality to ensure that a similar type of accident does not happen. Details of any fatality or major accident are discussed by senior managers and HSE Officers across the Group to ensure that training is applied Group-wide.<br><br>In addition, the 2016 Annual Bonus Scheme for the Executive Directors and Executive Committee has been designed by the Remuneration Committee to recognise the importance of HSE issues. | No change |

## Health, safety and environmental risks continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **2. The Group's operations require the use of hazardous substances including cyanide and other reagents.**<br><br>**Additional information**<br>Environmental, Safety and Social Report on pages 24 to 25 | Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community. | Cyanide and other dangerous substances are kept in secure storages with limited access only to qualified personnel, with access closely monitored by security staff.<br><br>During the year an employee died as a result of an accident involving cyanide poisoning. This accident, the first in the Group's history to involve cyanide, was investigated thoroughly by the authorities and the Company was not found to be at fault. An internal investigation also took place involving mine management and specialists in order to ascertain the reasons for this fatality, which arose from the employee conducting unauthorised works. As a consequence of the internal investigations further training has been provided to all relevant employees at the Group's mines and additional procedures have been implemented to prevent a further accident occurring.<br><br>Please also refer to page 22 for further information. | No change |

## Legal and regulatory risks

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **1. The Group requires various licences and permits in order to operate.** | The Group's principal activity is the mining of precious and non-precious metals which require it to hold licences which permit it to explore and mine in particular areas in Russia. These licences are regulated by Russian governmental agencies and if a material licence was challenged or terminated, this would have a material adverse impact on the Group. In addition, various government regulations require the Group to obtain permits to implement new projects or to renew existing permits.<br><br>Failure to comply with the requirements and terms of these licenses may result in the subsequent termination of licenses crucial to operations and cause reputational damage. Alternatively, financial or legal sanctions could be imposed on the Group. Failure to secure new licences or renew existing ones could lead to the cessation of mining at the Group's operations or an inability to expand operations. | 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. | No change |

# Table of principal risks

## Legal and regulatory risks continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **2. 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.<br><br>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.<br><br>The Group's Pioneer and Malomir licences 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. | 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.<br><br>The Group seeks to mitigate the political and legal risk by constant monitoring of the proposed and newly adopted legislation in order 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.<br><br>The Group closely monitors its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government.<br><br>The Company's Articles of Association include a provision which allows the Board to impose such restrictions as the Directors may think necessary for the purpose of ensuring that no ordinary shares in the Company are acquired or held or transferred to any person in breach of Russian legislation, including any person having acquired (or who would as a result of any transfer acquire) ordinary shares or an interest in ordinary shares which, together with any other shares in which that person or members of their group is deemed to have an interest for the purposes of the Strategic Asset Laws, carry voting rights, exceeding 50 per cent. (or such lower number as the Board may determine in the context of the Strategic Asset Laws) of the total voting rights attributable to the issued ordinary shares without such acquisition having been approved, where such approval is required, pursuant to the Strategic Asset Laws.<br><br>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. | → **No change** |

## Legal and regulatory risks continued

| Risk | Description and potential impact | Mitigation | Change from 2014 |
|---|---|---|---|
| **3. The Group may be subject to risks arising from the political uncertainty within Russia** | Financial and economic sanctions imposed in 2014 by the United States and the EU on certain businesses and individuals in Russia increased political tensions and economic instability. In February 2016, the European Parliament passed a resolution which made it clear that EU economic restrictions against Russia will remain in place until Crimea is returned to Ukrainian rule.<br><br>In response to the sanctions Russia enforced certain import restrictions on Russian companies in respect of products supplied from countries that have imposed sanctions, which have a negative impact on Russia's economy, which could have a material adverse effect on the value of investments relating to Russia and on the Group's business, results of operations and financial condition. The perceived risk of investing in Russia could also be 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 monitor the position.<br><br>The Company maintains an ongoing dialogue with its shareholders and potential investors. | **No change** |

# Where We Operate

## Our gold mines

### Introduction

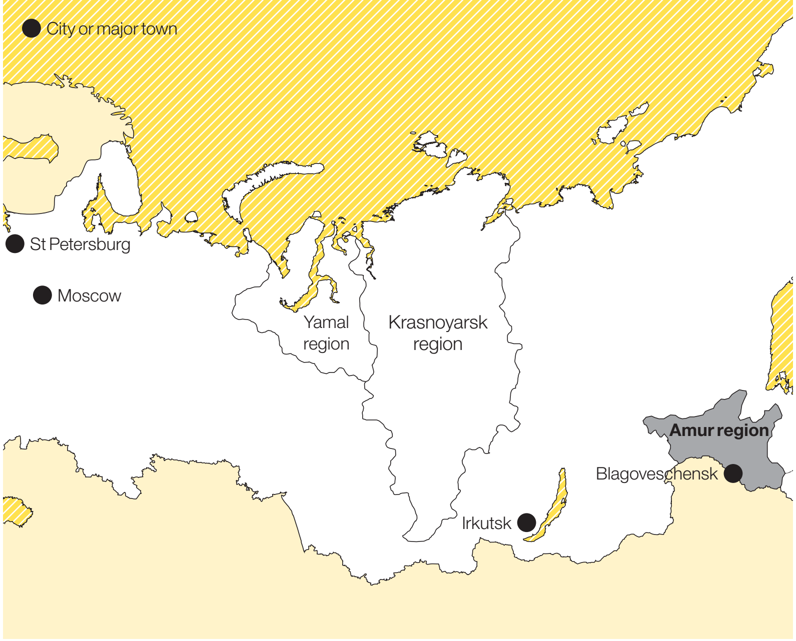
As a Russian gold producer, Petropavlovsk benefits from an established mining tradition with a historic focus on technical development. It is ten years since Petropavlovsk acquired Irgiredmet, the research and consulting institute for precious/rare metals and diamonds, which represents 145 years of research.

### Russian Federation

Today, Petropavlovsk remains committed to exploring ways to develop its operations by investing in advanced technologies, such as pressure oxidation, to maximise the output of its extensive resource portfolio. In line with progress made in 2015, the POX Hub project is being revisited and talks with potential partners have been successful. The Group has announced that it has entered into a conditional agreement to create a joint venture (JV) with Limited Liability Company GMD Gold. The JV is being created in order to finance the completion of the construction and commissioning of the Company's Pressure Oxidation Hub Project at its Pokrovskiy mine in the Amur Region of the Russian Federation.

Please refer to Future Development on pages 60 to 61 for more information on our proposed joint venture

Russia's established mining tradition has also contributed to the creation and development of legislation to support miners and the communities in which they operate. This allows mining companies to explore, develop and generate returns from their assets in a responsible, sustainable way.

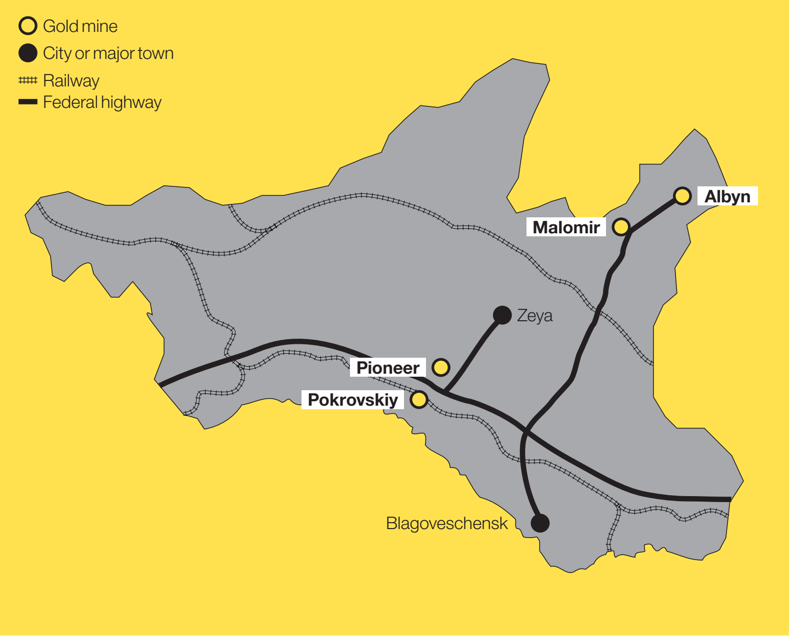



### Amur region

Petropavlovsk is a leading employer and contributor to economic development in Russia's Amur region, where its core operations are based.

The Amur region is roughly 361,900km$^2$ with a population of c.805,770, the majority of whom live in regional capital Blagoveshchensk. The region lies across one of the world's major mineralisation belts and as such has long been an attractive prospect for miners. It offers well-developed infrastructure, including access to low-cost hydroelectric power.

All Petropavlovsk's operational mines are connected to a combination of Trans-Siberian and Baikal-Amur Mainline (BAM) railways as well as with local capital Blagoveshchensk via all-seasonal roads. Petropavlovsk has operated there since 1994.



## The Group's key mining assets

Pioneer, Albyn, Pokrovskiy, Malomir and their satellites are all located in the Amur region. All of the mines have RIP plants, which are designed to operate 24 hours a day, 365 days of the year. The Pioneer and Pokrovskiy mines also have lower-cost heap-leach facilities, processing low-grade oxidised ore. These facilities only operate during warmer months, typically from April to November.

### Pioneer

Pioneer is one of the largest gold mines in Russia and is also the Group's flagship mine, accounting for c.46% of the Group's total gold production in 2015.

Pioneer was acquired as a greenfield site in 2001 and was explored, developed and built using in-house expertise. Since commissioning in 2008, the resin-in-pulp (RIP) plant has been expanded in phases to reach its current processing capacity of c.6.6Mtpa. As at 31 December 2015, Pioneer had produced c.2,130koz of gold, and had c.5.3Moz of Mineral Resources, of which c.2.6Moz were Ore Reserves.

In late 2015, with the acquisition of a new exploration license for Sosnovaya, the Pioneer project area was more than doubled. It is still being actively explored and has high potential for increases in reserves to be identified.

Turn to page 42 to 43 for more information about Pioneer.

### Albyn

Albyn is the Group's newest mine, commissioned in 2011. The Group acquired its first licence for Albyn in 2005, when the project area was still a greenfield site. The project was subsequently explored, developed and built using in-house expertise. Late in 2010 and 2013, three adjacent licenses were acquired – also as greenfield sites, making the total project area 1,160km$^2$. Subsequent exploration identified two substantial satellite deposits: Elginskoye and Unglichikanskoye.

Albyn's RIP plant was commissioned in the fourth quarter of 2011 and has since produced c.570koz of gold up to 31 December 2015. As at 31 December 2015, the Albyn project – including its satellites, had 5.0Moz of Mineral Resources, of which c.1.4Moz were Ore Reserves. Large areas adjacent to the mine remain under-explored and Group geologists consider Albyn to be highly prospective for further, significant gold discoveries.

Turn to page 44 to 45 for more information about Albyn.

### Pokrovskiy

Pokrovskiy is the Group's oldest mine. Since commissioning in 1999, it has produced c.1,960koz of gold. Despite being a mature project with declining production, Pokrovskiy remains one of the Group's key assets, due to its strategic location near the Trans-Siberian Railway and developed infrastructure.

As the mine gradually comes towards the end of its life, the Group plans to turn the Pokrovskiy site into a Pressure Oxidation (POX) Hub, which is expected to be the largest and most advanced of its kind in Russia. Crucially, it will enable the Group to process refractory ore reserves, including refractory reserves from third-party deposits.

As at 31 December 2015, Pokrovskiy (including Burinda) had 1.4Moz of Mineral Resources, of which c.0.4Moz were Ore Reserves.

Turn to page 46 to 47 for more on information about Pokrovskiy.

### Malomir

Malomir was acquired by the Group as a greenfield site and is now one of the largest gold mines in Russia, in terms of its mineral resources. Once the POX Hub is commissioned, the mine will become a major contributor to group gold production.

As at 31 December 2015, Malomir's Mineral Resources stood at 7.0Moz, of which 2.7Moz were Ore Reserves. As at 31 December 2015, Malomir had produced c.485koz of gold since commissioning in mid-2010.

Most of Malomir's resources and reserves are refractory, requiring flotation and pressure oxidation for efficient gold recovery. In 2013, following the gold price decline and changes in market conditions, development of Malomir's flotation plant and Pokrovskiy's POX Hub was slowed down. The Group has been working to resume this development and, following successful discussions, has announced a conditional JV agreement with GMD Gold to accelerate and complete the development of the POX Hub. Please visit the future development section, page 60, for more information.

Turn to pages 48 to 49 for more on information about Malomir.

Strategic report
Governance
Financial statements

# Operational Performance

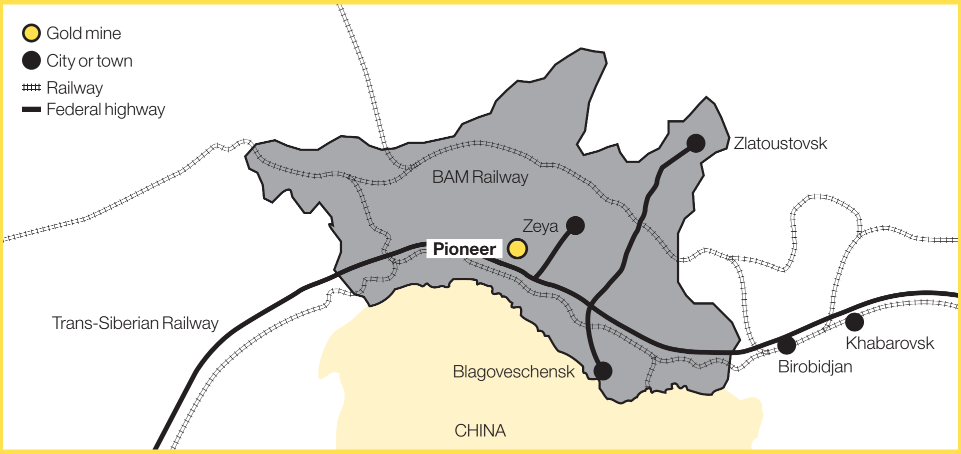
## Pioneer

### Introduction

Pioneer is one of the largest gold mines in Russia. It was acquired by the Group in 2001 as a greenfield site. Since then it has been developed into a mine with a capacity to process c.6.6Mt of ore per year. It also has a seasonal heap-leach facility. Since the RIP plant's commissioning in 2008, Pioneer has produced c.2,130koz of gold.

**2015 gold production**
c.231.4koz – 46% of total Group gold production for the year.

Pioneer production
Other Group mines




### Key facts

**Deposit type**
Hard-rock with both non-refractory and refractory ore.

**Mining**
Currently open pit. The decision has been made to develop an underground mine.

**Processing**
RIP plant and seasonal heap-leach facility on-site. Currently only non-refractory ore processed.

**Development history**
Acquired in 2001 as a greenfield project. Developed in-house into one of Russia's largest gold mines.

**Reserves and resources**
2.6Moz of Ore Reserves and 5.3Moz of Mineral Resources.

### Progress against strategic priorities

**Value-adding exploration**
Further positive results from exploration of high-grade ore bodies required researching the option of underground mining. Initial results suggest an underground project at Pioneer would be technically viable and highly profitable. The geological assessment and a full feasibility study should be completed during 2016 when, subject to Russian authority approval, the access ramp can be opened.

**Asset development**
Continued emphasis on developing reserves for underground mining. High-grade mineralisation is confirmed at least 160m below Pioneer's open pits and remains open in a down-dip direction.

**2015 operational efficiencies**
A 24% decrease in total cash cost of US$625/oz was achieved (2014: US$818/oz).

**Operating responsibly and safely**
At Pioneer, the LTIFR was 1.50 per million man hours worked.

### Location and infrastructure

Pioneer is located in the Amur region between the BAM Railway and the Trans-Siberian Railway. The closest station on the Trans-Siberian Railway is c.40km away. Pioneer is c.35km from the Pokrovskiy mine.

**Reserves and Resources (as at 31 December 2015) (WAI, April 2016 in Accordance with JORC Code 2012)**

| | 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 | 48,996 | 0.69 | 1.08 | 73,763 | 0.91 | 1.49 | 99,793 | 0.80 | 2.57 |
| *Measured* and *Indicated* Resources | 78,992 | 0.67 | 1.72 | 99,878 | 0.76 | 2.43 | 178,870 | 0.72 | 4.16 |
| *Inferred* Resources | 21,702 | 0.65 | 0.45 | 37,810 | 0.58 | 0.71 | 59,512 | 0.61 | 1.16 |

The Group continues to explore potential to further develop the Pioneer mine, with particular focus on underground mining in line with the recent findings. Following the acquisition of a new license in December 2015 (Sosnovaya), the total license area for the Pioneer project increased to c.1,300km². Group geologists expect that many areas within the outline of Pioneer's license area have the potential to contribute to its overall reserve base.

## Geology

Gold mineralisation at Pioneer was formed near a contract between a multiphase granitoid massif and Jurassic county rocks as a result of hydrothermal activity associated with volcanism during the late 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, most of which are steep-dipping. Of these, Andreevskaya and North-East (NE) Bakhmut are 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. Deeper extensions of NE Bakhmut and Andreevskaya zones are being successfully explored with a view to start underground mining.

c.50% of Pioneer's Ore Reserves are non-refractory and can be processed at the mine's existing facilities. The remaining ore is refractory and is not suitable for direct cyanidation processing methods due to its mineralogy. The Group currently expects that this material will be processed into flotation concentrate, which will then be trucked c.35km by existing roads to the Pokrovskiy site for processing at the POX Hub, once its facilities are commissioned.

## Mining and processing

The Group's flagship mine, Pioneer accounts for the largest portion of Group gold production. Currently mining at Pioneer is entirely open pit and only its non-refractory ore is mined and processed. The majority of ore is processed at the mine's RIP plant, which operates throughout the year. Some low-grade material is processed in an on-site heap-leaching facility. The decision to develop an underground mine has been made and is currently being reviewed by the Company.

## Pioneer mining operations

| | Units | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Total material moved | m3 '000 | 23,980 | 26,226 |
| Ore mined | t '000 | 6,016 | 7,104 |
| Average grade | g/t | 1.28 | 1.40 |
| Gold content | oz. '000 | 248.4 | 319.9 |

## Pioneer processing operations

| | Units | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Resin-in-pulp ('RIP') plant | | | |
| Total milled | t '000 | 6,582 | 6,626 |
| Average grade | g/t | 1.25 | 1.49 |
| Gold content | oz. '000 | 264.5 | 316.6 |
| Recovery rate | % | 85.0 | 81.1 |
| Gold recovered | oz. '000 | 224.7 | 257 |
| Heap leach operations | | | |
| Ore stacked | t '000 | 800 | 791 |
| Average grade | g/t | 0.56 | 0.60 |
| Gold content | oz. '000 | 14.5 | 15.8 |
| Recovery rate | % | 46.2 | 39.6 |
| Gold recovered | oz. '000 | 6.7 | 6.2 |
| Total gold recovered | oz. '000 | 231.4 | 263.0 |

## 2015 performance

In 2015, Pioneer produced 231.4koz, around 46% of total Group gold production for the year (2014: c.263.0koz).

Despite delays in its stripping, which put pressure on production, c.84.1koz of gold were produced at the mine in Q4.

## Costs

For the year ended 31 December 2015, TCC/oz for Pioneer were US$625/oz, a c.24% reduction compared with 2014 (US$818/oz), in spite of a 16% decrease in grades processed through the mill, a slight decrease in recovery rates and some inflation of Rouble-denominated costs.

## Outlook

The 2016 plan for Pioneer is based on the Group's new strategy of cash flow optimisation. It provides for a similar production profile through cost reduction measures. All production from the mine is expected to come from non-refractory, open pit ore in 2016, sourced mainly from Alexandra and Andreevskaya.

To extend Pioneer's production profile for the longer term, mining of our high-grade underground resources is planned – particularly those at NE Bakhmut and Andreevskaya, as well as processing of a large refractory reserve base.

Turn to page 57 for more on exploration at Pioneer.

Turn to page 60 for more on the POX Hub and the development of an underground mining proposal at Pioneer.

*Notes to the above Ore Reserves and Mineral Resources table:*

- *A cut off grade has been applied of 0.3g/t for both non-refractory and refractory open pit Mineral Resources and Ore Reserves; 1.5g/t cut off grade was applied to the Mineral Resources reported for the potential underground extraction;*
- *Mineral Resources for potential open pit extraction are constrained by US$1,500/oz conceptual pit shell; Mineral Resources reported for the potential underground extraction have been defined as those below the pit designs used in the Ore Reserve estimate;*
- *Ore Reserves are limited by a mine design based on an optimal pit shells at US$1,100/oz gold price;*
- *Mineral Resources are inclusive of Ore Reserves and include Mineral Resources for potential underground extraction;*
- *Figures may not add up due to rounding*

# Albyn

## Introduction

Petropavlovsk has developed the deposit into its second largest producing mine since acquiring its first license in 2005. It has produced c.570koz of gold since the RIP plant was commissioned in 2011.

**2015 gold production**
c.157.6koz – 31% of total Group gold production for the year.



## Key facts

**Deposit type**
Hard-rock with non-refractory ore.

**Mining**
Open pit.

**Processing**
RIP plant on-site.

**Development history**
Acquired in 2005 as a greenfield project. Explored, developed and commissioned in-house.

**Reserves and resources**
1.4Moz of Ore Reserves and 5.0Moz of Mineral Resources.

## Progress against strategic priorities

**Value-adding exploration**
New satellite Afanasevskoe deposit identified and explored. Focus on continued exploration drilling at 3+Moz resource Elginskoye deposit. Assessment of the Unglichikan deposit's underground mining potential.

**Asset development**
The Albyn project has a substantial non-refractory reserves and resources base. It does not rely on the POX project being completed to sustain production. The current development plan details a gradual shift of mining works to Albyn satellite deposits and potential underground mining.

**2015 operational efficiencies**
A 10% decrease in total cash cost of US$747/oz was achieved (2014: $830/oz).

**Operating responsibly and safely**
At Albyn, the LTIFR was 1.06 per million man hours worked.

## Location and infrastructure

Albyn is located in the Amur region's north-eastern Selemdja district. The traditional gold mining area benefits from infrastructure established to support alluvial operations, which were previously more extensive.

Albyn is c.150km from Malomir and c.2km from the nearest village, Zlatoustovsk, with its direct road connection to the BAM Railway.

**Reserves and Resources (as at 31 December 2015) (WAI, April 2016 in Accordance with JORC Code 2012)**

| | 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 | 40,751 | 1.03 | 1.35 | – | – | – | 40,751 | 1.03 | 1.35 |
| *Measured* and *Indicated* Resources | 48,961 | 1.28 | 2.01 | – | – | – | 48,961 | 1.28 | 2.01 |
| *Inferred* Resources | 76,263 | 1.06 | 2.61 | – | – | – | 76,263 | 1.06 | 2.61 |

Along with the main, 40km² Albyn license area, the Group has acquired three further license areas: Kharginskoye, Elginskoye and Afanasievskaya. All of them are close to the main Albyn site and are part of the Albyn project, giving it a combined total area of more than 1,160km². The Group's geologists consider the area to be underexplored and to have significant potential to further expand the Group's mineral reserves and resources base.

### Geology

The Albyn deposit is situated within the Mongolo-Okhotskiy mineralised belt, further east from Malomir. The mineralisation at Albyn comprises a series of gently dipping sub-parallel metasomatic zones, which appear to be open in a down-dip direction. They show variable thickness and grade, extending for c.4.5km in strike length. Metallurgical tests, together with approximately four years of industrial scale processing, have shown with confidence that the mineralisation at Albyn is entirely non-refractory, achieving high recovery rates of 90-95% when using the conventional direct cyanidation method for processing ore. All Albyn's current Ore Reserves are suitable for processing in the mine's operational RIP plant. In addition to the Albyn mine, the Group has explored three satellite deposits: Elginskoye (within the Elginskoye licence area), Unglichikan and Afanasevskoye (both within the Afanasievskaya licence area). Substantial JORC Mineral Resources and Ore Reserves were established within these areas. Exploration results obtained from other exploration targets within the Albyn project to date have been promising.

### Mining and processing

Mining at Albyn is open pit and ore is processed at an RIP plant. Underground mining scenarios are currently being evaluated. The entire project reserve is non-refractory.

### Albyn mining operations

| | Units | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Total material moved | m3 '000 | 36,722 | 29,821 |
| Ore mined | t '000 | 4,906 | 4,510 |
| Average grade | g/t | 1.15 | 1.29 |
| Gold content | oz. '000 | 181.5 | 187.4 |

### Albyn processing operations

| | Units | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Resin-in-pulp ('RIP') plant | | | |
| Total milled | t '000 | 4,600 | 4,609 |
| Average grade | g/t | 1.14 | 1.33 |
| Gold content | oz. '000 | 168.8 | 197.6 |
| Recovery rate | % | 93.3 | 94.1 |
| Gold recovered | oz. '000 | 157.6 | 186.0 |
| Total gold recovered | oz. '000 | 157.6 | 186.0 |

### 2015 performance

In 2015, Albyn produced 157.6koz – around 31% of total Group gold production for the year (2014: 186.0koz). As one of the Group's largest producing mines, it has been a key target for cost reduction.

In H1, mining generally focused on the main pit with some stripping carried out at the east pit. The original 2015 schedule for Albyn was adjusted during the year so that main body and satellite ores were no longer blended together, as tests showed that this depressed processing recovery rates. This had a positive impact on recovery rates compared to the beginning of 2015 (90.8% in Q1) and the average recovery rate of 93% was achieved for the year, which placed downward pressure on costs.

In H2, the pilot processing of ore from a new satellite pit, Afanasevskaya, was successfully carried out. However, the decision was taken to defer production from this satellite in order to maximise the profitability of the Albyn mine.

Total mass moved in 2015 was c.37 million cubic metres, up from c.30 million in 2014.

### Costs

Albyn is one of the Group's largest producing mines and as such has been a key target for cost reduction. Total cash costs at Albyn for the year were US$747/oz, an approximate 10% decrease compared with 2014 (US$830/oz). This was achieved in spite of a 14% increase in the stripping ratio compared with the previous year and some inflation of Rouble-denominated costs. The costs improvement was a result of a combination of several factors: a 14% increase in grades processed through the mill, a slight improvement in recovery rates, the cost-optimisation programme and Rouble devaluation.

### Outlook

2016 exploration is mainly planned at the Elginskaya area. In-fill drilling should allow the Group to evaluate additional reserves there by converting Inferred into Measured and Indicated Resources. Plans are also in place to evaluate the extent of high-grade mineralisation below the Albyn and Unglichikan pits that may be suitable for underground mining.

Turn to page 58 for more on exploration at Albyn.

*Notes to the above Ore Reserves and Mineral Resources table:*
- *a cut-off grade 0.3 g/t has been applied;*
- *Mineral Resources are constrained by a US$1,500/oz conceptual pit shell;*
- *Ore Reserves are limited by a mine design based on an optimal pit shell at US$1,100/oz gold price;*
- *Mineral Resources are inclusive of Ore Reserves;*
- *Figures may not add up due to rounding.*

# Pokrovskiy

## Introduction

The Group's first producing asset, Pokrovskiy is the backbone of the Group. It was acquired by Pavel Maslovskiy when it was in the early stages of exploration, and the Group was created in 1994 to finance its development. The first gold was produced at the mine in 1999 from its heap-leach facilities; RIP plant production commenced in 2002.

**2015 gold production**
c.56koz – 11% of total Group gold production for the year.



## Key facts

**Deposit type**
Hard-rock with non-refractory ore.

**Mining**
Open pit.

**Processing**
RIP plant and seasonal heap-leach facility on-site. Plans to finish developing site into POX Hub.

**Development history**
Acquired in 1994 and developed into an operational mine in-house. Commissioned heap-leach facility in 1999 and RIP plant in 2002.

**Reserves and resources**
0.4Moz of Ore Reserves and 1.4Moz of Mineral Resources inc. Burinda satellite deposit.

## Progress against strategic priorities

**Value-adding exploration**
Focus on efficiency and cost reduction to maintain site for future POX Hub role. Successful exploration works during 2015 extended the operational life of Pokrovskiy's non-refractory facilities. The plans for further exploration in 2016 at Pokrovskiy satellite deposits Bazoviy and Vodorazdelniy were made in order to expand the deposit's non-refractory reserves and resources base.

**Asset development**
In 2015, discussions commenced on a potential partnership to further develop the POX Hub at Pokrovskiy, and on 28 April, the Group announced a conditional JV agreement with GMD Gold to accelerate and complete this development. Please refer to Future Development on page 60 for more information on the conditional JV agreement.

**2015 operational efficiencies**
Total cash cost of US$871/oz was in line with the previous year (2014:US$885/oz).

**Operating responsibly and safely**
At Pokrovskiy, the LTIFR was 3.04 per million man hours worked.

## Location and infrastructure

Pokrovskiy is located in the Amur region, c.10km from the Trans-Siberian Railway. Burinda is a gold deposit within the Taldan license area, c.115km from the mine. Burinda ore is scheduled to be processed using Pokrovskiy's RIP plant facilities.

## Reserves and Resources (as at 31 December 2015) (WAI, April 2016 in Accordance with JORC Code 2012)

| | 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 | 9,031 | 1.23 | 1.35 | – | – | – | 9,031 | 1.23 | 1.35 |
| *Measured* and *Indicated* Resources | 39,668 | 0.86 | 1.10 | – | – | – | 39,668 | 0.86 | 1.10 |
| *Inferred* Resources | 10,393 | 1.00 | 0.33 | – | – | – | 10,393 | 1.00 | 0.33 |

Pokrovskiy has produced c.1,960koz of gold to date since commissioning in 1999 but today its main pits are almost depleted. To prolong the life of the mine, mining has gradually been shifting to satellite deposits. Pokrovskiy is an integral part of the Group's future plans as a base for the POX Hub.

### Geology

Pokrovskiy is located on the south side of the Mongolo-Okhotskiy regional belt, some 35km south of Pioneer. Similarly to Pioneer, gold mineralisation at Pokrovskiy and its satellites is associated with volcanism during the late Mesozoic Period and appears to sit near the eastern contact of large multiphase granitoid massif with the Jurassic metasedimentary and Cretaceous volcanic rocks. The Pokrovskiy deposit consists of a set of several large, irregular, but mostly flat-lying ore bodies. Gold-bearing zones at Zheltunak and Bazoviy have a similar morphology, but are much smaller in size and lower in gold grades. Some other zones at Zheltunak also have a high-grade, narrow-vein morphology and therefore may be potentially suitable for underground mining. Vodorazdelniy is a low-grade linear stockwork suitable for an open pit extraction. The ore bodies at Burinda are elongated in the N-S and NE-SW directions, hosted by a surrounding zone of metasomatism and characterised by pinch-and-swell structures. Mineralisation at Burinda is open to the depth and there is a potential for underground mining of high-grade areas.

### Mining and processing

Mining at Pokrovskiy is open pit. Ore is processed on-site – higher-grade ore at the RIP plant, lower-grade ore at the heap-leach facility.

### 2015 performance

In 2015, Pokrovskiy produced c.56.0koz, around 11% of total Group gold production for the year (2014: c.64.2koz). As with Malomir, the focus at Pokrovskiy was site maintenance and preservation for its future POX Hub role.

### Pokrovskiy mining operations

| | Units | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Total material moved | m3 '000 | 5,169 | 4,665 |
| Ore mined | t '000 | 933 | 623 |
| Average grade | g/t | 1.41 | 1.79 |
| Gold content | oz. '000 | 42.2 | 35.9 |

### Pokrovskiy processing operations (incl. Burinda)

| | Units | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Resin-in-pulp ('RIP') plant | | | |
| Total milled | t '000 | 1,791 | 1,864 |
| Average grade | g/t | 1.04 | 1.15* |
| Gold content | oz. '000 | 59.7 | 68.8 |
| Recovery rate | % | 84.3 | 84.2 |
| Gold recovered | oz. '000 | 50.4 | 57.9 |
| Heap leach operations | | | |
| Ore stacked | t '000 | 541 | 533 |
| Average grade | g/t | 0.53 | 0.60 |
| Gold content | oz. '000 | 9.2 | 9.7 |
| Recovery rate | % | 60.6 | 65.5 |
| Gold recovered | oz. '000 | 5.6 | 6.3 |
| Total gold recovered | oz. '000 | 56.0 | 64.2 |

In H1, a main source of ore for production was extracted from the expanded part of the Pokrovka-1 pit. Some high-grade ore came from the Burinda satellite deposit, and from stockpiles. Pokrovka 3 and Zheltunak also contributed to production. Plans for other satellite deposits, Bazoviy and Vodorazdelniy, were also made.

### Costs

For the year ended 31 December 2015, TCC/oz at Pokrovskiy were US$871/oz, in line with 2014 (US$885/oz), in spite of a 10% decrease in the average grades processed through the mill and some inflation of Rouble-denominated costs. This was achieved due to the success of the Group's cost-optimisation programme and the 59% average depreciation of the Rouble against the US Dollar.

### Outlook

The Group continues to review its plans for Pokrovskiy in line with the ongoing development of the POX Hub. Future production at the Pokrovskiy mine depends on the POX project's timings. Currently it is envisaged that the Pokrovskiy mine will continue to process non-refractory gold at the current capacity until the POX plant is commissioned. After POX commissioning, only the heap-leach facilities will remain able to treat non-refractory ore.

The Group announced a conditional Joint Venture with GMD Gold on 28 April 2016.

Turn to page 59 for more on exploration at Pokrovskiy.
Turn to page 60 for more on the POX Hub.

*Notes to the above Ore Reserves and Mineral Resources table:*
- *a cut-off grade 0.3 g/t has been applied for Mineral Resources; a cut off grade of 0.4g/t was applied for Ore Reserves at all areas except Burinda where a cut off 0.9g/t was used;*
- *Mineral Resources are constrained by a US$1,500/oz conceptual pit shell;*
- *Ore Reserves are limited by a mine design based on an optimal pit shell at US$1,100/oz gold price;*
- *Mineral Resources are inclusive of Ore Reserves;*
- *Figures may not add up due to rounding.*

# Malomir

## Introduction

Malomir is one of Russia's largest gold mines in terms of its JORC Reserves and Resources. The mine was developed from a greenfield site license the Group acquired in 2003. It has produced c.485koz of gold since commissioning in mid-2010.

**2015 gold production**
c.59.1koz – 12% of total Group gold production for the year.


## Key facts

**Deposit type**
Hard-rock with both non-refractory and refractory ore (mostly refractory).

**Mining**
Currently open pit. Underground mining project under development.

**Processing**
RIP plant on-site. Currently only non-refractory ore is being processed.

**Development history**
Acquired in 2003 as a greenfield project. Today one of the largest gold mines in Russia in terms of mineral resources.

**Reserves and resources**
2.7Moz of Ore Reserves and 7.0Moz Mineral Resources.

## Progress against strategic priorities

**Value-adding exploration**
Deep drilling successfully proved down-dip extensions of the high-grade Quartzitovoye zone 230m below the bottom of the existing pit. The orebody remains open below this depth, with morphology, grade and thickness to justify underground extraction.

**Asset development**
The 2015 exploration results confirmed the viability of underground mining scenarios for Quartzitovoye. Internal estimates suggest these will be technically viable and highly profitable. The detailed geological assessment and full feasibility study should be completed by Q2-Q3 2016. Once the POX construction timetable is finalised, it is expected that Malomir's large refractory reserve base will be processed through the new facilities.

**2015 operational efficiencies**
Total cash cost of US$1,092/oz was in line with the previous year (2014:US$1,031/oz).

**Operating responsibly and safely**
At Malomir, the LTIFR was 7.35 per million man hours worked.

## Location and infrastructure

Malomir is in the north east of the Amur region, c.670km from Pokrovskiy. It has direct connection to Pokrovskiy and to Fevralsk, a town on the BAM Railway.

**Reserves and Resources (as at 31 December 2015) (WAI, April 2016 in Accordance with JORC Code 2012)**

| | 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 | 7,235 | 1.06 | 0.25 | 73,763 | 1.04 | 2.46 | 80,998 | 1.04 | 2.71 |
| *Measured* and *Indicated* Resources | 13,233 | 1.12 | 0.48 | 126,613 | 0.91 | 3.72 | 139,846 | 0.93 | 4.20 |
| *Inferred* Resources | 8,182 | 1.35 | 0.36 | 107,671 | 0.70 | 2.44 | 115,853 | 0.75 | 2.79 |

The Malomir project area is under continuous exploration with a number of prospective targets that may add to the overall reserve base.

### Geology
The Malomir deposit is situated along and above a major thrust zone within the Mongolo-Okhotskiy mineralised belt. It 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 has confirmed the existence of two further major deposits at Malomir: Ozhidaemoye and Quartzitovoye. Subsequently, this exploration confirmed the smaller Magnetitovoe zone as well as a number of promising exploration targets. The Malomir and Ozhidaemoye deposits contain significant refractory ore reserves. However, Quartzitovoye and Magnetitovoe consist of high-grade, non-refractory ore reserves.

### Mining and processing
Currently mining at Malomir is open pit. The Group recovers gold from Malomir's non-refractory ore in an on-site RIP plant. Plans are in place to mine the large refractory reserve to recover gold using the POX Hub (at Pokrovskiy), when completed. This relies on the construction of a flotation plant at Malomir, currently 90% complete – work was slowed down in 2013 but may recommence in 2016, subject to the approval of the GMD Gold Joint Venture, discussed further in the Future Development section on page 60. The flotation plant will convert the refractory reserves into higher-grade flotation concentrate, which will be sent to the POX Hub for processing.

### 2015 performance
In 2015, Malomir produced 59.1koz, around 12% of total Group gold production for the year (2014: 82.2koz).

The Group's focus on production and cash cost optimisation resulted in mining operations mainly concentrating on the Quartzitovoe and Magnetitovoe areas of Malomir, whilst work at the others was rescheduled. Due to perceived challenges in mining at the Magnetitovoe zone, in H1 mining was carried out at some of the smaller Malomir satellite pits. This did not prove cost efficient due to the long distance between these pits and the plant. To optimise efficiency, the mining plan was adjusted to move mining of some reserves – mainly those at these distant satellite deposits, to later years. The new plan allows the pits to be mined in a timely manner, whilst Malomir is developed into a main producer of refractory concentrate for the future POX Hub. Currently, works at the deposit are focused on producing steady cash flows, in order to maintain the mine and preserve its machinery while the large scale refractory operations are being developed.

### Costs
2015 total cash costs/oz for Malomir were US$1,092/oz in line with the previous year (2014: US$1,031/oz), in spite of a 32% decrease in processed grades and some inflation of Rouble-denominated costs due to the cost optimisation programme and a 59% average depreciation of the Rouble against the US Dollar. Cash costs at Malomir are affected by the scattered positioning of multiple deposits and high stripping coefficients.

### Outlook
In 2015, we adjusted our operational plans to focus on optimal production. We expect 2016 production to be at similar levels as in 2015, in line with management's focus on cash cost optimisation. Our medium to long-term plans for Malomir remain in place – to develop it into a main producer of refractory concentrate for the future POX Hub.

Moving forward, production at Malomir will rely on remaining lower-grade non-refractory reserves, refractory reserves and high-grade resources for potential extraction using underground mining methods, which were identified in 2015. Exploration works carried out at Malomir so far indicate potential to identify additional non-refractory resources.

Turn to page 58 for more on exploration at Malomir.
Turn to page 60 for more on the POX Hub.

### Malomir mining operations

| | Units | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Total material moved | m3 '000 | 8,904 | 7,433 |
| Ore mined | t '000 | 2,105 | 2,164 |
| Average grade | g/t | 1.01 | 1.32 |
| Gold content | oz. '000 | 68.5 | 92.2 |

### Malomir processing operations

| | Units | Year ended 31 December 2015 | Year ended 31 December 2014 |
|---|---|---|---|
| Resin-in-pulp ('RIP') plant | | | |
| Total milled | t '000 | 2,937 | 2,594 |
| Average grade | g/t | 0.93 | 1.36 |
| Gold content | oz. '000 | 88.0 | 113.8 |
| Recovery rate | % | 67.2 | 72.2 |
| Gold recovered | oz. '000 | 59.1 | 82.2 |
| Total gold recovered | oz. '000 | 59.1 | 82.2 |

*Notes to the above Ore Reserves and Mineral Resources table:*
- *A cut off grade has been applied of 0.4g/t to non-refractory and 0.3g/t for refractory Ore Reserves; 0.3g/t cut off was applied to open pit non-refractory and refractory Mineral Resources; 1.5g/t cut off grade was applied to the Mineral Resources reported for the potential underground extraction;*
- *Mineral Resources for potential open pit extraction are constrained by US$1,500/oz conceptual pit shell; Mineral Resources reported for the potential underground extraction have been defined as those below the pit designs used in the Ore Reserve estimate;*
- *Ore Reserves are limited by a mine design based on an optimal pit shells at US$1,100/oz gold price;*
- *Mineral Resources are inclusive of Ore Reserves and include Mineral Resources for potential underground extraction*
- *Figures may not add up due to rounding;*

# Exploration Report, Reserves and Resources

In line with the approach adopted in previous years, the Group reports its Mineral Resources and Ore Reserves in accordance with JORC Code. The assets are subdivided into ‘core’ and ‘non-core’ projects. ‘Core projects’ refers to the Group’s four operational mines: Pokrovskiy, Pioneer, Malomir, Albyn and all their satellites. Mineral Resource and Ore Reserve estimates for these assets have been audited by WAI in accordance with JORC Code (2012).

The Group considers its ‘non-core’ projects to be assets with potential to be developed into production at some point in future, though they are not located near current processing facilities. These include Tokur (Amur Region), Visokoe (Krasnoyarsk) and Yamal assets (the Petropavlovskoe-Novogodnee Monto deposits). Mineral Resources and, where appropriate, Ore Reserves for these projects have not changed since 2011. These estimates have not been updated and therefore reported in accordance with JORC Code (2004 – the current version at the time of the estimates). The estimates were reviewed and signed off by WAI in March 2011 (Yamal, Tokur) and February 2012 (Visokoe).

The set of tables below provide a summary and an asset-by-asset breakdown of Mineral Resources and Ore Reserves.

Total Group Ore Reserves for Core and Non-Core Projects are presented in this first table.

**Ore Reserves for open pit extraction (as at 31 December 2015)**
(in accordance with JORC Code)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Ore Reserves | *Proven* | 37,127 | 1.03 | 1.24 |
| | *Probable* | 231,471 | 0.96 | 7.17 |
| | *Proven+Probable* | 268,598 | 0.97 | 8.41 |
| Non-Refractory Ore Resources | *Proven* | 16,528 | 0.91 | 0.48 |
| | *Probable* | 127,510 | 0.97 | 3.98 |
| | *Proven+Probable* | 144,038 | 0.96 | 4.46 |
| Refractory Ore Resources | *Proven* | 20,599 | 1.14 | 0.75 |
| | *Probable* | 103,961 | 0.96 | 3.20 |
| | *Proven+Probable* | 124,560 | 0.99 | 3.95 |

*Note: Figures may not add up due to rounding.*

The table below provides a summary of gold Ore Reserves for the Group’s Core Projects, which comprise Pioneer, Pokrovskiy, Malomir, Albyn and Burinda. These Reserves are also included in the table above and are not additional.

**Ore Reserves for open pit extraction at Core Group Assets in the Amur Region (as at 31 December 2015)**
(WAI April 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Ore Reserves | *Proven* | 35,099 | 1.01 | 1.14 |
| | *Probable* | 195,474 | 0.93 | 5.85 |
| | *Proven+Probable* | 230,573 | 0.94 | 6.99 |
| Non-Refractory Ore Resources | *Proven* | 14,500 | 0.83 | 0.39 |
| | *Probable* | 91,513 | 0.90 | 2.65 |
| | *Proven+Probable* | 106,013 | 0.89 | 3.04 |
| Refractory Ore Resources | *Proven* | 20,599 | 1.14 | 0.75 |
| | *Probable* | 103,961 | 0.96 | 3.20 |
| | *Proven+Probable* | 124,560 | 0.99 | 3.95 |

*Note: Figures may not add up due to rounding.*

In addition to the Ore Reserves scheduled for open pit extraction, the Group is working on a formal reserve estimate for underground mining. At the time of publishing this annual report the estimate has not been completed and it yet to undergo an independent technical audit. Group expects to be in position to publish it later in 2016.

Total Group Mineral Resources for Core and Non-Core Projects are presented in the table below.

**Mineral Resources for potential open pit extraction (as at 31 December 2015)**
(in accordance with JORC Code)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Mineral Reserves | *Measured* | 67,099 | 1.05 | 2.26 |
| | *Indicated* | 481,296 | 0.86 | 13.31 |
| | *Measured+Indicated* | 548,395 | 0.88 | 15.57 |
| | *Inferred* | 312,650 | 0.77 | 7.72 |
| Non-Refractory Mineral Resources | *Measured* | 40,495 | 1.05 | 1.37 |
| | *Indicated* | 281,409 | 0.89 | 8.04 |
| | *Measured+Indicated* | 321,904 | 0.91 | 9.41 |
| | *Inferred* | 167,169 | 0.85 | 4.57 |
| Refractory Mineral Resources | *Measured* | 26,604 | 1.04 | 0.89 |
| | *Indicated* | 199,887 | 0.82 | 5.27 |
| | *Measured+Indicated* | 226,491 | 0.85 | 6.16 |
| | *Inferred* | 145,481 | 0.67 | 3.15 |

*Note: Figures may not add up due to rounding.*

**Mineral Resources for potential open pit extraction at core Group assets in the Amur Region (as at 31 December 2015)**
(WAI April 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Mineral Reserves | *Measured* | 45,565 | 0.94 | 1.38 |
| | *Indicated* | 413,840 | 0.82 | 10.90 |
| | *Measured+Indicated* | 459,405 | 0.83 | 12.28 |
| | *Inferred* | 261,040 | 0.72 | 6.03 |
| Non-Refractory Mineral Resources | *Measured* | 18,961 | 0.81 | 0.50 |
| | *Indicated* | 213,953 | 0.82 | 5.63 |
| | *Measured+Indicated* | 232,914 | 0.82 | 6.12 |
| | *Inferred* | 115,559 | 0.77 | 2.88 |
| Refractory Mineral Resources | *Measured* | 26,604 | 1.04 | 0.89 |
| | *Indicated* | 199,887 | 0.82 | 5.27 |
| | *Measured+Indicated* | 226,491 | 0.85 | 6.16 |
| | *Inferred* | 145,481 | 0.67 | 3.15 |

*Note: Figures may not add up due to rounding.*

In addition to the Mineral Resources potentially suitable for open pit extraction, the Group estimates high-grade Mineral Resources potentially suitable for underground mining at Pioneer and Malomir. The estimate totals 0.42Moz. There is a detailed breakdown on page 56.

**Summary of Ore Reserves for open pit extraction by asset (as at 31 December 2015)**

**Pokrovskiy & Burinda, Amur Region**
(WAI 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 2,469 | 1.53 | 0.12 |
| | *Probable* | 6,563 | 1.11 | 0.23 |
| | *Proven+Probable* | 9,031 | 1.23 | 0.36 |
| Non-Refractory | *Proven* | 2,469 | 1.53 | 0.12 |
| | *Probable* | 6,563 | 1.11 | 0.23 |
| | *Proven+Probable* | 9,031 | 1.23 | 0.36 |
| Refractory | *Proven* | – | – | – |
| | *Probable* | – | – | – |
| | *Proven+Probable* | – | – | – |

**Pioneer, Amur Region**
(WAI 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 21,410 | 0.94 | 0.65 |
| | *Probable* | 78,382 | 0.76 | 1.92 |
| | *Proven+Probable* | 99,793 | 0.80 | 2.57 |
| Non-Refractory | *Proven* | 8,374 | 0.76 | 0.21 |
| | *Probable* | 40,621 | 0.67 | 0.88 |
| | *Proven+Probable* | 48,996 | 0.69 | 1.08 |
| Refractory | *Proven* | 13,036 | 1.06 | 0.44 |
| | *Probable* | 37,761 | 0.86 | 1.04 |
| | *Proven+Probable* | 50,797 | 0.91 | 1.49 |

**Malomir, Amur Region**
(WAI 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 7,588 | 1.27 | 0.31 |
| | *Probable* | 73,410 | 1.02 | 2.40 |
| | *Proven+Probable* | 80,998 | 1.04 | 2.71 |
| Non-Refractory | *Proven* | 24 | 1.21 | 0.00 |
| | *Probable* | 7,210 | 1.06 | 0.25 |
| | *Proven+Probable* | 7,235 | 1.06 | 0.25 |
| Refractory | *Proven* | 7,563 | 1.27 | 0.31 |
| | *Probable* | 66,200 | 1.01 | 2.15 |
| | *Proven+Probable* | 73,763 | 1.04 | 2.46 |

**Albyn, Amur Region**
(WAI 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 3,633 | 0.51 | 0.06 |
| | *Probable* | 37,119 | 1.09 | 1.30 |
| | *Proven+Probable* | 40,751 | 1.03 | 1.35 |
| Non-Refractory | *Proven* | 3,633 | 0.51 | 0.06 |
| | *Probable* | 37,119 | 1.09 | 1.30 |
| | *Proven+Probable* | 40,751 | 1.03 | 1.35 |
| Refractory | *Proven* | – | – | – |
| | *Probable* | – | – | – |
| | *Proven+Probable* | – | – | – |

**Visokoe, Krasnoyarsk Region**
(WAI 2012, in accordance with JORC Code 2004)

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

**Tokur, Amur Region**
(WAI 2011, in accordance with JORC Code 2004)

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

*Notes:*

*(1) Group Ore Reserves statements are prepared by WAI; Pokrovskiy, Pioneer, Malomir and Albyn reserves are prepared in April 2016 in accordance with JORC Code 2012; Visokoe Ore Reserves prepared in January 2012 in accordance with JORC Code 2004; Tokur Reserves are prepared in 2010 in accordance with JORC Code 2004.*

*(2) Ore Reserves estimations are for open pit extraction. Pokrovskiy, Pioneer, Malomir and Albyn areas are reported within economical pit shells using a $1,100/oz gold price assumption. Visokoe has been based on a $1,250/oz gold price assumption and Tokur has been based on a $1,000/oz gold price assumption, together with the operating costs assumptions relevant at the time of the estimates.*

*(3) Ore Reserve estimation cut-off grades for reporting varies from 0.3 to 0.9g/t Au, depending on the asset and processing method.*

*(4) Figures may not add up due to rounding.*

### Summary of Mineral Resources for potential open pit extraction by asset (as at 31 December 2015)

**Pokrovskiy & Burinda, Amur Region**
(WAI 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Mineral Resources | *Measured* | 6,626 | 1.04 | 0.22 |
| | *Indicated* | 33,042 | 0.82 | 0.88 |
| | *Measured+Indicated* | 39,668 | 0.86 | 1.10 |
| | *Inferred* | 10,393 | 1.00 | 0.33 |
| Non-Refractory Mineral Resources | *Measured* | 6,626 | 1.04 | 0.22 |
| | *Indicated* | 33,042 | 0.82 | 0.88 |
| | *Measured+Indicated* | 39,668 | 0.86 | 1.10 |
| | *Inferred* | 10,393 | 1.00 | 0.33 |
| Refractory Mineral Resources | *Measured* | – | – | – |
| | *Indicated* | – | – | – |
| | *Measured+Indicated* | – | – | – |
| | *Inferred* | – | – | – |

**Pioneer, Amur Region**
(WAI 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Mineral Resources | *Measured* | 26,677 | 0.89 | 0.77 |
| | *Indicated* | 151,778 | 0.67 | 3.28 |
| | *Measured+Indicated* | 178,455 | 0.71 | 4.05 |
| | *Inferred* | 59,368 | 0.58 | 1.11 |
| Non-Refractory Mineral Resources | *Measured* | 8,600 | 0.76 | 0.21 |
| | *Indicated* | 69,977 | 0.62 | 1.40 |
| | *Measured+Indicated* | 78,577 | 0.64 | 1.61 |
| | *Inferred* | 21,558 | 0.58 | 0.40 |
| Refractory Mineral Resources | *Measured* | 18,077 | 0.95 | 0.55 |
| | *Indicated* | 81,801 | 0.71 | 1.88 |
| | *Measured+Indicated* | 99,878 | 0.76 | 2.43 |
| | *Inferred* | 37,810 | 0.58 | 0.71 |

**Malomir, Amur Region**
(WAI 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Mineral Resources | *Measured* | 8,593 | 1.21 | 0.33 |
| | *Indicated* | 130,814 | 0.90 | 3.77 |
| | *Measured+Indicated* | 139,407 | 0.92 | 4.11 |
| | *Inferred* | 115,176 | 0.71 | 2.62 |
| Non-Refractory Mineral Resources | *Measured* | 66 | 0.92 | 0.002 |
| | *Indicated* | 12,728 | 0.93 | 0.38 |
| | *Measured+Indicated* | 12,794 | 0.93 | 0.38 |
| | *Inferred* | 7,505 | 0.76 | 0.18 |
| Refractory Mineral Resources | *Measured* | 8,527 | 1.21 | 0.33 |
| | *Indicated* | 118,086 | 0.89 | 3.39 |
| | *Measured+Indicated* | 126,613 | 0.91 | 3.72 |
| | *Inferred* | 107,671 | 0.70 | 2.44 |

**Albyn, Amur Region**
(WAI 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Mineral Resources | *Measured* | 3,669 | 0.51 | 0.06 |
| | *Indicated* | 98,206 | 0.94 | 2.97 |
| | *Measured+Indicated* | 101,875 | 0.92 | 3.03 |
| | *Inferred* | 76,103 | 0.80 | 1.96 |
| Non-Refractory Mineral Resources | *Measured* | 3,669 | 0.51 | 0.06 |
| | *Indicated* | 98,206 | 0.94 | 2.97 |
| | *Measured+Indicated* | 101,875 | 0.92 | 3.03 |
| | *Inferred* | 76,103 | 0.80 | 1.96 |
| Refractory Mineral Resources | *Measured* | – | – | – |
| | *Indicated* | – | – | – |
| | *Measured+Indicated* | – | – | – |
| | *Inferred* | – | – | – |

**Tokur, Amur Region**
(WAI 2011, in accordance with JORC Code 2004)

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

**Visokoe, Krasnoyarsk Region**
(WAI 2012, in accordance with JORC Code 2004)

| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total Mineral Resources | *Measured* | 5,623 | 1.37 | 0.25 |
| | *Indicated* | 38,512 | 1.18 | 1.47 |
| | *Measured+Indicated* | 44,135 | 1.21 | 1.71 |
| | *Inferred* | 24,200 | 1.00 | 0.78 |
| Non-Refractory Mineral Resources | *Measured* | 5,623 | 1.37 | 0.25 |
| | *Indicated* | 38,512 | 1.18 | 1.47 |
| | *Measured+Indicated* | 44,135 | 1.21 | 1.71 |
| | *Inferred* | 24,200 | 1.00 | 0.78 |
| Refractory Mineral Resources | *Measured* | – | – | – |
| | *Indicated* | – | – | – |
| | *Measured+Indicated* | – | – | – |
| | *Inferred* | – | – | – |

### Petropavlovskoye & Monto, Yamal Region
(WAI 2011, in accordance with JORC Code 2004)

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

*Notes:*

*(1) Mineral Resources include Ore Reserves*

*(2) Mineral Resources for Pokrovskiy, Pioneer, Malomir and Albyn were audited in April 2015 by WAI in accordance with JORC Code 2012 with a further review of changes in April 2016; Mineral Resources for Visokoe, Tokur and Yamal were reviewed by WAI in 2011, 2010 and 2010 respectively in accordance with JORC Code 2004*

*(3) The cut-off grade varies from 0.30 to 0.35g/t depending on the type of mineralisation and proposed processing method*

*(4) Mineral Resources for the Core Projects including Pokrovskiy, Pioneer, Malomir and Albyn are constrained by open pit shells at a long-term gold price of US$1,500/oz. For these areas, where Mineral Resources for underground mining are evaluated (Andreevskaya and NE Bakhmut at Pioneer and Quartzitovoye at Malomir), open pit Mineral Resources are constrained by the pit designs used to define Ore Reserves. Mineral Resources for Visokoe are constrained by a conceptual open pit shell at a long-term gold price assumption of US$1,800/oz; Tokur and Yamal Mineral Resources have no open pit constraints.*

### Summary of Non-Refractory Mineral Resources for potential underground extraction by asset (as at 31 December 2015)
(WAI April 2016, in accordance with JORC Code)

| | | Non-Refractory | | |
|---|---|---|---|---|
| | Category | Tonnage (Kt) | Grade (g/t Au) | Gold (Moz Au) |
| Pioneer | *Measured* | 0 | – | 0 |
| | *Indicated* | 415 | 8.15 | 0.11 |
| | *Measured+Indicated* | 415 | 8.15 | 0.11 |
| | *Inferred* | 144 | 10.38 | 0.05 |
| Malomir | *Measured* | 0 | – | 0 |
| | *Indicated* | 439 | 6.73 | 0.10 |
| | *Measured+Indicated* | 439 | 6.73 | 0.10 |
| | *Inferred* | 677 | 7.86 | 0.17 |
| Total Underground | *Measured* | 0 | – | 0 |
| | *Indicated* | 854 | 7.42 | 0.20 |
| | *Measured+Indicated* | 854 | 7.42 | 0.20 |
| | *Inferred* | 821 | 8.30 | 0.22 |

*Notes:*

*(1) Mineral Resources for potential underground extraction were audited by WAI in accordance with JORC Code 2012 in April 2016*

*(2) Cut-off grade is 1.5g/t is used to report Mineral Resource for potential underground mining.*

*(3) Mineral Resources reported for the potential underground extraction have been defined as those below the pit designs used in the Ore Reserve estimate.*

## Pioneer

During 2015, exploration at Pioneer continued to pursue two main objectives:

– Find and explore further non-refractory resources for potential open pit mining

– Explore the deeper-sitting non-refractory resources that are suitable for eventual underground extraction.

Regarding the first objective, work in 2015 concentrated on the Alexandra area (Alexandra, Shirokaya and Brekchievaya zones) where a significant amount of in-fill drilling was completed. This drilling improved confidence in the Alexandra Mineral Resource and Ore Reserve estimates. In addition, exploration identified high-grade intersections in drill hole C-8909, c.500m north from the Alexandra zone: 2.3m at 7.97g/t and 2.1m at 17.5g/t. The extent, morphology, true thickness and orientation of this high-grade mineralisation is unclear and the area warrants follow-up drilling. Drilling at the Brekchievaya zone resulted in the discovery of a new orebody and a small increase in the non-refractory Mineral Resources there.

Exploration targeting open pit resources continued at the Pioneer license, south of the Nikolaevskaya zone. Re-interpretation of the IP geophysical survey revealed several anomalies that correlate well with the known Pioneer gold-bearing structures. Exploration drilling completed during 2015 intersected mostly low-grade mineralisation. The best intersections include 9.9m at 1.63g/t, 27.9m at 0.56g/t (both drill hole C-2409), 67m at 0.60g/t (drill hole C-2422) and 31.1m at 0.97g/t (drill hole C-2400). Although some of the mineralisation discovered is oxidised and non-refractory, a significant proportion of the deeper primary material is expected to be refractory. Nevertheless, Group geologists continue to believe the area may be prospective for the discovery of high-grade non-refractory resources and exploration is expected to continue here into 2016.

The Group made significant progress in exploring deeper extensions of the Andreevskaya and NE Bakhmut high-grade pay shoots. The Andreevskaya East pay shoot was confirmed further down to c.285m below the surface, which is c.95m below the expected depth of the open pit mining there. The mineralisation was drilled at c.20 by 20m centres, modelled and included into Group JORC Mineral Resource and Ore Reserve statements. It remains open below this depth. Another pay shoot has been confirmed at a depth of up to 210m below the surface (and c.40m below the expected depth of the open pit mining) in the Andreevskaya West area, by 2 drill holes (true thickness of c.1.4m at 10.65g/t, C-5606 and true thickness of c.1.1m at 62.7g/t, C-5607).

At NE Bakhmut, the Group completed 30 drill holes that intersected high-grade mineralisation as deep as 370m below the surface and c.145m below the existing open pit (NE Bakhmut No.3). The best intersections include 7.2m at 35.2g/t, 19.8m at 7.92g/t and 9.4m at 86.26g/t. The pay shoot is still open in a down-dip direction with the last intersection received in Q1 2016 is 2.0m and 5.15g/t. There remains potential for high-grade discoveries at NE Bakhmut Nos 1, 2 and 5.

Pay shoot No. 1 (Bakhmut) was intersected by 11 drill holes and traced to an elevation of +40, c.160m below the existing pit. The thickness of drill intersections varies between 5.2 and 22.4m at a grade between 2.0 and 19.46g/t. The strike length of the pay shoot is up to 70m and, similar to the NE Bakhmut pay shoot, it is open in depth.

The Promezhutochnaya pay shoot is also located within the Bakhmut trend, close to conjunction with the Yuzhnaya zone. It is not as well-explored as the first two pay shoots; nonetheless, it has been intersected by drilling c.240m below the existing open pit, with an intersection width of 1.5m at 47.8g/t. Further drilling was carried out on Pay Shoot No. 1 and Promezhutochnaya in Q1 2016. The assay results from this drilling are still pending.

Overall, the total Mineral Resources at Pioneer slightly decreased (by c.200,000oz), mostly due to mine depletion of c.280,000oz Pioneer total Ore Reserves decreased c.340,000oz, mainly due to mine depletion.

## Malomir

The key areas of exploration at Malomir during 2015 were Berezoviy (earlier in the year) and the deeper extensions of No. 55, the high-grade Quartzitovoye orebody, for potential underground mining. Exploration was also carried out at Razlomniy (south side of the Pogranichnaya license) but with no significant results to report.

At Berezoviy, the Osennee zone – the principal zone of mineralisation in that area discovered to date, was subject to detailed exploration and trial mining. Exploration was finalised, resulting in c.22koz being included in the Mineral Resource statement and c.17koz being added to its Ore Reserves. Exploration at the other mineralised zones within the Berezoviy area – Zapadnaya and Uspenskaya, to date has only resulted in the discovery of scattered mineralisation that is not continuous and could not be included into a formal JORC Resource estimate. Exploration there has been paused whilst the exploration targets are re-evaluated and the further exploration program is re-considered. Results of the exploration completed at the Razlomniy area in 2015 were also below expectations. Exploration there has stopped until the exploration concept and targets are re-evaluated considering 2015 results. All of these other zones are treated as low priority.

In H2 2015, deep drilling commenced to explore deeper extensions of the high-grade ore body 55 (Quartzitovoye deposit). Four drill holes were completed, one of which is still awaiting assay results. Two drill holes intersected high-grade mineralisation as deep as 150m below the expected depth of the final pit at this zone. Two drill holes intersected high-grade mineralisation interpreted as an extension of the main ore body 55. The drill intersections are c.14.5m at c.6.7g/t (drill hole 900-1) and c.2.8m at c.38.3g/t (drill hole 900-4). Other significant intersections, currently interpreted as belonging to smaller sub-parallel satellite structures and/or apophysis, include 2.7m at 36.2g/t (drill hole 900-4). The quoted intersections used a 1.5g/t cut-off grade and true thickness. At a cut-off grade of 1.0 g/t, intersections in 900-4 are joining in a single interval of c.20m (true thickness) at c.7.7g/t. The resource model indicates that Quartzitovoe has c.266koz of gold in high grade resources (c.7.4 g/t, c.1,116kt of ore) below the final open pit. This resource is potentially suitable for underground mining and still open in a down–dip direction, as well as along the strike. Exploration here is planned to continue into 2016. Group specialists expect to estimate and report JORC Reserve of 200-300koz here during 2016.

Malomir's total Mineral Resources increased by c.120,000oz mostly due to success of exploration at Quartzitovoe.

Malomir Ore Reserves decreased by c.350,000oz due to a depletion of c.90,000oz of gold as well as due to the use of more conservative modifying factors for the refractory reserves, in line with the JORC Code 2012.

## Albyn

**Elginskoye area**
An extensive in-fill drilling program commenced in H2 2015 at Elginskoye. This was in order to upgrade some of its large Inferred Resources to the Indicated category and subsequently increase Ore Reserves there, as well as to better define its high-grade areas. This work is still in progress with drilling scheduled to finish in Q2 2016. The preliminary results of this work have been included in the Q1 2016 Mineral Resources and Reserves update – all the results will be incorporated later in 2016 once the drill program is complete. This additional drilling will enable the Group to obtain formal approval of the Elginskoye reserves from Russian authorities (GKZ) and a full mining permit for the deposit.

In 2015, exploration work also continued at the Afanasevskoe deposit (west of Albyn's Afanasevskaya license). Podarochnoe, a principal known zone of mineralisation there, was drilled at 40 by 40m centres. This allowed us to estimate Measured and Indicated Mineral Resources as well as Probable Ore Reserves in accordance with JORC Code 2012. Approximately 40koz (in 1,380kt of ore at c.0.95g/t average grade) of Mineral Resource was estimated, of which c.20koz (c.560kt at 1.23g/t) has been converted into Probable Reserves . Approximately 5koz of this reserve has been depleted during 2015.

Albyn's Mineral Resources increased by c.370,000oz despite depletion of c.170,000oz, giving a gross increase of c.540,000oz. The increase is mainly attributable to the evaluation of new Mineral Resources at the Albyn satellite deposits Unglichikan and Elginskoye.

Albyn's Ore Reserves decreased slightly by c.30,000oz despite the depletion. The gross increase taking depletion into account is c.140,000. The increase is mainly at Elginskoye, Unglichkanskoe and Afanasevskoe satellite deposit. Group specialists envisage the extensive drilling program together with the comprehensive technical studies currently being undertaken by the Group on Elginskoe should result in evaluation of JORC Ore Reserve in excess of 1Moz.

## Pokrovskiy

**Vodorazdelniy**
In 2015, exploration resumed at the Vodorazdelniy prospect, situated c.2km south-east from the Pokrovskiy processing plant. Vodorazdelniy has been known for some years but was a low priority due to its low grade. Drilling completed in 2015, together with exploration results from before 2011, allowed estimation of the Mineral Resources and Ore Reserves there in accordance with JORC Code 2012. Though low-grade, Vodorazdelniy is expected to provide c.30koz of gold (mostly for heap-leach), extending Pokrovskiy's non-refractory operational life.

**Zheltunak East, 'Suhoi' Zone**
Drilled in H1, the Zheltunak East 'Suhoi' zone displayed patchy mineralisation mainly within zones of silicification, with quartz veinlets and minor breccia. High-grade intersections were found in two adjacent boreholes (80m apart) at a depth of 25m each, showing an 8m thickness at 6g/t Au. It is possible that these two intersections represent the same thrust surface as in the Cross (Criest) zone. If so then this should be confirmed by some limited, shallow (less than 50m depth) infill drilling between these two holes, as well as drilling on adjacent sections.

Pokrovskiy mineral resources increased by c.130,000oz with the depletion offset by new additions at Vodorazdelnoe.

Ore Reserves decreased by only c.30,000oz, despite mine depletion of c.69,000oz.

**New Sosnovaya license**
The new Sosnovaya license covering area north-east from Pokrovskiy and south-west from Pioneer was acquired at government auction in December 2015. This new license covers geological contact between Cretaceous granitoids and Jurassic host rocks, believed to be favourable for the formation of gold deposits. The Sosnovaya license joins the two sites (Pioneer and Pokrovskiy) together and the Group now has control over the entire length of the eastern segment (c.80km long) of this prospective contact. Preparation of the exploration program for Sosnovaya is under way with field work expected to start later in 2016. WAI has reviewed the exploration potential of this license and believes it is possible that substantial new gold deposits may be discovered there.

# Future Development

## The Pokrovskiy Pressure Oxidation (POX) Processing Hub

**Background**
In 2010, Petropavlovsk decided to convert the Pokrovskiy mine into a regional hub for processing refractory concentrates. Refractory ore makes up c.50% of the Group's total JORC Reserves, all of which is at Pioneer and Malomir. Group operations cannot currently process it as the gold it contains is trapped in sulphide minerals, such as pyrite or arsenopyrite. These 'lock in' the gold particles and make the ore resistant to cyanide-based processing.

With the hub in place, ore would first be processed into high-grade flotation concentrate at on-site plants. It would then be trucked to Pokrovskiy and treated using pressure oxidation. This is a high temperature and pressure process whereby gold-bearing sulphides are exposed to extreme heat in a pressurised autoclave. The process would break down the sulphides present in the flotation concentrate, making the gold amenable to cyanide leaching using Pokrovskiy's RIP plant. The ultimate aim is to smelt gold into doré bars at an on-site facility.

At present, the Pokrovskiy POX plant comprises of four autoclaves, installed in 2013. Each autoclave is 15m long and 4m tall, weighs 116.5t and has an effective volume of 66m3. Having four separate autoclave vessels allows operations to be more flexible, as concentrates with different properties and sources can be separately processed at the same time, without compromising productivity or gold recovery.

It is expected that once commissioned, the POX Hub would be the largest of its kind in Russia, able to process 400,000t of flotation concentrate a year. The Group also estimates that it would be Russia's most technologically-advanced POX facility for processing gold, able to extract from a wide range of refractory ores. This would support long-term, sustainable gold production from Malomir and Pioneer. Given the scale of the POX Hub and the large amount of undeveloped refractory gold mineralisation in the Russian Far East, the hub opens a new dimension for the Group's future growth. In addition to the Group's current assets, the hub could treat ores from deposits available for acquisition in the region, especially those with significant reserves and resources but abandoned during the Soviet Era due to a lack of technology. There is also potential to process concentrate from third parties without access to such technology and expertise.

In order to conserve capital expenditure following the decline in the gold price, the Group decided to slow down the POX Hub's development. In 2014, development was conducted solely to fulfil existing contracts, and in 2015 only essential maintenance work took place.

**2015 Update**
During 2015, the Group held discussions with a reputable industry player on a potential partnership to further develop the POX project. These talks were based on the current low rouble environment, in which budgeted capital and operational expenditures have been reduced significantly. On 28 April 2016, Petropavlovsk announced that it has entered into a conditional agreement to create a joint venture ("JV") with Limited Liability Company GMD Gold. The agreement is subject to shareholder approval. The JV is being created in order to finance the completion of the construction and commissioning of the Company's Pressure Oxidation Hub Project at its Pokrovskiy mine in the Amur Region of the Russian Federation. The POX Hub will be capable of processing refractory gold concentrates sourced from the Company's Malomir and Pioneer mines and concentrates produced at GMD Gold affiliates' operations, as well as third parties' gold bearing concentrates. Any profits arising at JV level will be shared on a 50:50 basis.

Petropavlovsk commenced development of the POX Hub in 2011 but, following the fall in gold price in 2013, development was suspended at a time when the Project was more than 50% completed. This joint venture agreement provides the Group with an opportunity to complete the POX Hub and to monetise the Group's refractory gold reserves and secures a substantial increase in mid-term production increase Petropavlovsk's total gold production. It should ensure sustainable production from refractory assets for at least 20 years with excellent growth potential.

The Group will contribute the Project to the JV in its current state of construction in return for a 49% equity stake in the JV whilst in exchange for 51% GMD Gold will contribute US$120 million, which is the estimated cost required to bring the Project to completion and commissioning. Commissioning of the POX Hub will enable the start of processing of the Group's refractory ores and the commencement of gold production from refractory reserves starting in 2018, with the plant achieving its full capacity in 2019.

The POX Hub construction is expected to re-commence in 2016 and take approximately 18 months to complete. The two line at the Malomir flotation plant is more than 90% complete and is expected to be commissioned before the POX Hub is, in order to generate sufficient quantity of concentrate for a sustainable start up. The Group is considering investment into the expansion of the Malomir flotation plant, adding a third flotation line and expanding Malomir's refractory capacity to 5.6Mt of ore a year. It is estimated this expansion will require between US$30 and US$40 million of capital expenditure in 2016. The expansion, together with the commissioning of the POX Hub, is set to add an additional 200,000 – 300,000oz (depending on quality of the concentrate) of yearly output to the Group's gold production schedule at TCC levels similar to the Group's current costs of production.

## Underground Mining

**Background**
In 2014, Group geologists began to evaluate the opportunity to maximise the value of the Pioneer and Malomir deposits by developing underground mining operations. As a result of this evaluation, the Group identified two areas at Pioneer potentially suitable for underground mining – Andreevskaya and NE Bakhmut, as well as the Quartzitovoye deposit at Malomir and the Pokrovka 1 deposit at Pokrovskiy. Preliminary estimates by Group geologists indicated that an underground mine at Pioneer could potentially have a high economic return at a gold price above US$800/oz.

In 2015, independent mining consultants Wardell Armstrong International (WAI) reviewed the Group's assessment of Pioneer and suggested that developing its underground mining operations would take 12-18 months from the project's commissioning to its first production. Within four years from commissioning, the operation is expected to work at its full capacity of 0.9-2 million tonnes of ore per year, which will lead to an increase in Pioneer RIP production. Initial estimates indicate the project will require capital expenditure of c.US$50 million.

## 2015 Update

In 2015, the Group carried out an engineering study on underground development at Pioneer and Malomir mines, with the support of Russian and foreign experts. The first results have given confidence that both underground projects should be technically viable and highly profitable, with the potential to contribute high margin ounces to the Group's production schedule within 12-16 months, sooner than previously expected. After a more detailed evaluation, the Pokrovka 1 orebody was removed from the underground proposals and Unglicikan (part of the Albyn project) was considered instead. Mineralisation is open at depth in most instances.

At Pioneer, deep drill holes completed during 2015 confirmed the anticipated continuation of Pioneer's high-grade mineralisation to 100-240m below the open pits. Resources potentially suitable for underground mining have been identified at Pioneer's Bakhmut and Andreevskaya trends. At the Bakhmut trend, there are three proven pay shoots – one under NE Bakhmut pit 6.3 (mined from open pit to a depth of 230m), one at the Bakhmut Zone itself (pay shoot no.1) and another high-grade shoot at the Promezhutochnaya zone.

At NE Bakhmut pit 6.3, high-grade mineralisation remained at the bottom of the pit, with a 60m strike length and a thickness of 15m at an average grade of 25.0g/t. This mineralisation has been traced c.145m below the existing pit to an elevation of 170m via 25 drill holes. The known high-grade mineralization is open in a down-dip direction and the Group anticipates that continued drilling should extend this further down.

Pay shoot no.1 (Bakhmut) was intersected by 11 drill holes and traced to an elevation of +40m, c.160m below the existing pit. The thickness of drill intersections varies between 5.2 and 22.4m at a grade between 2.0 and 19.46g/t. The strike length of the pay shoot is up to 70m and, similar to the NE Bakhmut pay shoot, it is open in depth.

The Promezhutochnaya pay shoot is also located within the Bakhmut trend, close to conjunction with the Yuzhnaya zone. It is not as well-explored as the first two pay shoots, though it has been intersected by drilling c.240m below the existing open pit, with an intersection width of 1.5m at 47.8g/t.

At Andreevskaya, which has historically been a source of exceptionally high-grade ore, Group geologists identified 3 pay shoots that they believe may support an underground mine. The Andreevskaya East shoot has been the most explored by 20x20m drilling (40 drill holes) to an elevation of -10m, some 130m below the planned open pit. The main high-grade zone has a thickness between 1.5 and 4.8m with the grade varying between 34.7 and 90.6g/t. At least two higher grade shoots are anticipated at Andreevskaya central and western sections. These require further drilling to be confirmed, which is budgeted for 2016.

At the Quartzitovoye zone (Malomir), 2015 drilling confirmed high-grade mineralisation at minable grades and thickness to a depth of c.150m below the expected depth of the final pit. The high grade orebody has a strike length of 220m, with thickness that varies between 2.8 and 15m, at grades of 6.8 to 38.3g/t.

In February 2016, the Group employed a Russian engineering firm to undertake a pre-feasibility study and mine design on underground mines at NE Bakhmut, Andreevskaya, Quartzitovoye and Unglichikan. The study concluded that underground mining should be technically feasible and economically viable at all locations besides Unglichikan, for which they recommended further exploration. Known high-grade resources outside of the planned open pit are insufficient to justify an underground mine there, however there is potential to identify more through additional drilling. WAI has reviewed this study in accordance with JORC Code 2012 and estimated Ore Reserves for underground mining. The Group is in preliminary talks with a mining subcontractor who has undertaken a site visit to assess the project.

The full feasibility study for this project is expected to be completed in 2016 when, subject to Russian authority approval, the underground access ramp portal can be opened. The Group is planning to start underground mining at Pioneer in 2017. Underground mining at Quartzitovoye is anticipated to begin in 2020. Alongside developing the ramp, the Group also plans to finish the geological assessment of technical and economic parameters at deeper levels. This would mean further exploration drilling from within the underground workings.

## Acquisition of Amur Zoloto

As part of our new strategy we have adopted a portfolio management approach to growth. This requires ongoing assessment of our existing assets and potential targets for acquisition, as well as identifying and disposing of projects not aligned with Group objectives, with a view to improving the quality of our overall portfolio.

In line with this, Petropavlovsk PLC announced on the 28th April that it has entered into an agreement with Russia's Alliance Mining Group and Lexor Group S.A. to acquire Amur Zoloto LLC, an established gold company with production and development assets in the Khabarovsk region in the Far East of Russia. The transaction is subject to shareholder approval.

The acquisition promises to increase the quality and quantity of our mineral resource base, and will enable us to increase production. It would be paid for in shares and therefore would not increase Group debt.

Under the terms of the Agreement, Petropavlovsk will issue, as consideration for the acquisition, 1,434,303,624 new shares to the Contributors, which are ultimately controlled by Mr Musa Bazhaev and his associates (which new shares will represent approximately 30.3% of the Company's enlarged issued share capital). Based on an agreed issue price for the new Petropavlovsk shares of 6.89 pence per share, and the current US:GBP exchange rate of 1.4537:1, the aggregate value of the gross consideration payable on closing is approximately US$144 million. In addition, AZ currently has approximately US$16 million of net debt which will be assumed by the Group upon closing.

The Agreement is subject to the fulfilment of certain conditions, including the completion of due diligence by Petropavlovsk. AZ is currently undergoing a restructuring and, prior to completion of the proposed acquisition, will be ultimately 100% beneficially owned by the Contributors.

# Other Projects

The Group considers Pioneer, Albyn, Malomir and Pokrovskiy to be its key mining assets. Its Visokoe and Tokur assets are at an advanced stage of development but are currently treated as lower priorities. Nimanskaya is an early stage exploration asset, while Yamal is not currently being considered for development, though it remains under Group control.

The Group keeps the Tokur, Yamal and Nimanskaya licenses in good order and can start development work when and if it chooses to.

## Visokoe

### (Krasnoyarsk region)

Visokoe is a significant non-refractory gold deposit, currently not in production. It is located on the Yenisey Ridge area of the Krasnoyarsk region, home to some of Russia's largest and best-known gold deposits. It has been a key area for Russian gold mining for many decades. The Visokoe site itself is located c.50km north-west of the village of Teya and c.70km from the town of Severo-Yeniseysk. Extensive exploration and test work has indicated that ore at Visokoe is non-refractory and suitable for economic processing in an RIP plant or through heap-leaching. The deposit is at an advanced stage of development and contains c.1.2Moz of JORC gold Reserves and c.1.3Moz of Mineral Resources. A feasibility study on a possible heap-leach operation was completed by Irgiredmet in 2015 and is currently under review and approval by the relevant Russian authorities.

As part of the Group's strategy to focus on its core producing assets, the Group is expected to dispose of assets of LLC Ilyinskoye – a holder of the Visokoe deposit and Verhnetisskaya GRK CJSC. Total proceeds will amount to US$20 million to be paid in July 2016. A US$32.5 million impairment charge has been recorded against associated exploration assets.

Please see Note 12 to the Financial Statements, page 152, for more information.

**Mineral resources and ore reserves for Visokoe (as at 31 December 2015) (WAI, April 2012 in accordance with JORC Code 2004)**

| | 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* Ore Reserves | – | – | – | – | – | – | – | – | – |
| *Probable* Ore Reserves | 33,802 | 1.13 | 1.22 | – | – | – | 33,802 | 1.13 | 1.22 |
| Total *Proven* and *Probable* Ore Reserves | 33,802 | 1.13 | 1.22 | – | – | – | 33,802 | 1.13 | 1.22 |
| *Measured* Mineral Resources | 5,623 | 1.37 | 0.25 | – | – | – | 5,623 | 1.37 | 0.25 |
| *Indicated* Mineral Resources | 38,512 | 1.18 | 1.47 | – | – | – | 38,512 | 1.18 | 1.47 |
| *Measured* and *Indicated* Mineral Resources | 44,135 | 1.21 | 1.71 | – | – | – | 44,135 | 1.21 | 1.71 |
| *Inferred* Mineral Resources | 24,200 | 1.00 | 0.78 | – | – | – | 24,200 | 1.00 | 0.78 |

*Note: Mineral Resources are reported inclusive of Ore Reserves. Figures may not add up due to rounding.*
*– a cut off grade of 0.3 g/t has been applied;*
*– Ore Reserve limited by an optimal pit shell at US$1,200/oz gold price.*

# Tokur
## (Amur region)

Tokur is a hard-rock, non-refractory gold deposit located in the north-eastern part of the Amur region, approximately halfway between the Malomir and Albyn mines. Being a former Soviet-era mine based in an area of intensive, historical alluvial mining, Tokur benefits from developed infrastructure, including all-weather roads and power supply. This led it to become a base for the Group's expansion into the area. The project's facilities, which include mechanical workshops, dormitories and a canteen, are in regular use both by the company workers passing through and by third parties for a fee. The chemical and fire analysis laboratory located at Tokur is fully employed by the Group's exploration division.

Tokur is at an advanced stage of development and potentially suitable for re-opening as an open pit mine. While the deposit is not currently in commercial production, it contains significant JORC Mineral Resources and Ore Reserves, suitable for processing in a RIP plant. At this stage, the asset's development into a full-scale mining operation has been put on hold to minimise the Group's capital expenditure in the current gold price environment.

In line with the Group's plan to focus on existing producing assets in the short-term, no significant capital expenditure was allocated to this project during 2015. Tokur has been fully impaired and the Group intends to review its development plans in the medium-term.

**Mineral resources and ore reserves for Tokur (as at 31 December 2015) (WAI, March 2011 in accordance with JORC Code 2004)**

| | 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* Ore Reserves | 2,028 | 1.47 | 0.10 | – | – | – | 2,028 | 1.47 | 0.10 |
| *Probable* Ore Reserves | 2,195 | 1.44 | 0.10 | – | – | – | 2,195 | 1.44 | 0.10 |
| Total *Proven* and *Probable* Ore Reserves | 4,223 | 1.45 | 0.20 | – | – | – | 4,223 | 1.45 | 0.20 |
| *Measured* Mineral Resources | 11,952 | 1.30 | 0.50 | – | – | – | 11,952 | 1.30 | 0.50 |
| *Indicated* Mineral Resources | 16,096 | 1.06 | 0.55 | – | – | – | 16,096 | 1.06 | 0.55 |
| *Measured* and *Indicated* Mineral Resources | 28,048 | 1.16 | 1.05 | – | – | – | 28,048 | 1.16 | 1.05 |
| *Inferred* Mineral Resources | 10,706 | 1.09 | 0.38 | – | – | – | 10,706 | 1.09 | 0.38 |

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

# Yamal
## (Yamal region)

The Group's interest in the Yamal region, an area in the north of Russia, is centred on the development of two gold ore bodies: Petropavlovskoye and Novogodnee Monto. The two adjacent, small hard-rock, non-refractory gold deposits are potentially suitable for open pit mining. However, following the decline in the gold price and the Group adopting a strategic focus on production from its four existing mines, plans to develop Yamal assets into production were postponed and Yamal JORC gold Reserves were written off and removed from the Group's Reserves statement. The Group has been evaluating alternative development plans to realise the value of these assets and still quotes JORC Mineral Resources for them. There is currently no active development taking place at Yamal.

**Mineral resources for the Yamal assets (as at 31 December 2015) (WAI, March 2011, JORC Code 2004)**

| | 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* Ore Reserves | – | – | – | – | – | – | – | – | – |
| *Measured* Mineral Resources | 3,959 | 1.03 | 0.13 | – | – | – | 3,959 | 1.03 | 0.13 |
| *Indicated* Mineral Resources | 12,623 | 0.97 | 0.40 | – | – | – | 12,623 | 0.97 | 0.40 |
| *Measured* and *Indicated* Mineral Resources | 16,582 | 0.99 | 0.53 | – | – | – | 16,582 | 0.99 | 0.53 |
| *Inferred* Mineral Resources | 16,704 | 1.00 | 0.54 | – | – | – | 16,704 | 1.00 | 0.54 |

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

## Nimanskaya
### (Khabarovsk region)

The Nimanskaya license area is located c.90km south of Albyn in the Khabarovsk region. Although it does not have JORC-compliant Mineral Resources, exploration to date (trenching and some surface sampling) has indicated potential to discover a large mineral resource. The latest significant exploration field work was conducted at the Nimanskaya area during the first six months of 2013, when some trenching and surface sampling was completed, sample assays were performed and interpretations were made from data collected during 2012.

Due to its remote location and lack of a usable road, Nimanskaya is considered a lower priority target. However, exploration may resume in the future as the Group considers the area to be highly prospective.

## Disposal of Koboldo
### (Amur region)

Koboldo is an alluvial operation in the Amur region. Alluvial mining, the washing of gold-bearing gravels using a sluice or dredge, is seasonal. Operations normally run from April to November due to weather conditions, which contributes to the typical skew of the Group's gold production to the second half of the year.

Through its Koboldo subsidiary, the Group held licences to mine and conduct alluvial gold exploration for a number of small alluvial operations in the Amur region of Russia. Due to the high cost and the relatively small contribution to total Group production (only c.5% of total 2014 Group production), the Directors considered the Koboldo assets to be non-core. As a result, on 16 April 2015 the Group entered into an SPA relating to the sale of its 95.7% interest in OJSC ZDP Koboldo. The disposal was completed on 22 April 2015. The total cash consideration for the transaction was RUB 942 million (c.US 18.7 million) plus reimbursement of VAT for Q4 2014, payable within prescribed timeframes from the date of entering into the SPA. The transaction was completed before the start of the production season and as such no alluvial production was attributable to Petropavlovsk in 2015.

# IRC

IRC produces and develops industrial commodities. Based in the Russian Far East, it benefits from low production costs and proximity to the Chinese border, China being the world's largest consumer of IRC's main product, iron-ore. IRC was Petropavlovsk's Non-Precious Metals Division before it was listed on the Hong Kong Stock Exchange in late 2010 (stock code 1029).

The Group currently holds a 35.83% stake in IRC.

### IRC assets

IRC's key mining assets are Kuranakh, K&S and Garinskoye:

- **Kuranakh.** An iron-ore/ilmenite concentrate mine located in the Amur region, Russian Far East
- **K&S.** An ongoing project at an advanced stage of construction and development into a working mine. It is located in the Jewish Autonomous Region (EAO) of the Russian Far East
- **Garinskoye.** This project is at an advanced stage of exploration with Probable Ore Reserves as well as Indicated and Inferred Mineral Resources. Like Kuranakh, it is located in the Amur region.

IRC's non-core mining assets – those that are not expected to contribute substantially to revenue in the short to medium term, are Bolshoi Seym, the Garinskoye flanks, Kostenginskoye and the Molybdenum Exploration Projects.

- **Bolshoi Seym.** An ilmenite deposit with Indicated and Inferred Mineral Resources, located North of Kuranakh
- **The Garinskoye flanks.** An area surrounding Garinskoye at an early stage of exploration
- **Kostenginskoye.** An area 18km south of K&S at an early stage of exploration
- **The Molybdenum Exploration Projects.** These projects are located in the Amur region, and – like Garinskoye and Kostenginskoye, are at early stages of exploration.

The Garinskoye Flanks, Kostenginskoye and the Molybdenum Exploration Projects are yet to have JORC-compliant Mineral Resources and Ore Reserves.

In addition to these assets, IRC also operates:

- **Giproruda.** Based in St Petersburg, a technical mining and research consultancy
- **SRP.** A steel slag reprocessing plant located in North East China. It is a joint venture between IRC, which owns 46%, and one of its largest iron-ore customers.

### Operational performance in 2015

#### Kuranakh

Kuranakh produced 1,114,153 tonnes of iron-ore concentrate in 2015. This represents a 10% increase from 2014. The iron (Fe) content was 62.5%. It also produced 193,236 tonnes of ilmenite concentrate, up 8% from the previous year, with a 48% titanium dioxide content.

In December 2015, IRC announced its decision to move Kuranakh to care and maintenance due to the low iron-ore and ilmenite price environment. Despite efforts to reduce costs at the mine, IRC decided that it would be most economical to focus its resources on K&S.

#### K&S

Phase One K&S is expected to be able to produce 3.2 million tonnes of iron-ore concentrate with a 65.8% iron (Fe) content, once completed and at full capacity.

In October 2015, IRC reported that CNEEC, its main contractor for the development of K&S, had notified IRC that there would be a further delay to the project's commissioning. IRC later signed an agreement with CNEEC and was advised that the operational plant of K&S will be handed over by 30 June 2016.

Since December 2015, IRC had been in discussion with its project lender, ICBC, regarding waivers to maintain cash deposits at ICBC's debt service reserve account, and to comply with certain financial covenants. On 19 April 2016, the waivers were granted, subject to the fulfilment of certain conditions precedent.

#### Garinskoye

Garinskoye remains an attractive, low-cost, large-scale, DSO-style green-field project. Due to the depressed commodities environment and capital constraints, IRC did not develop it in 2015, but continues to monitor market conditions for future opportunities.

### Investment in IRC

In January 2013, IRC entered into conditional agreements for a US$238 million subscription for new IRC Shares by 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. Liquidity constraints have resulted in General Nice, to date, completing c.80% of its planned investment. Investment from Minmetals Cheerglory can only occur once the subscription by General Nice has been completed.

Although full completion of the investment from General Nice and Minmetals has been delayed, General Nice has agreed to commence paying interest on the outstanding investment amount of US$38 million from December 2014 onwards, although no interest payments have been made by General Nice to IRC as at 31 December 2015.

IRC continues to be in discussions with General Nice, Mr Cai Sui Xin (Chairman of General Nice) and Minmetals Cheerglory about completion of General Nice's subscription obligations and the settlement of the interest due to date and other potential alternative options.

On 5 August 2015, IRC announced the successful completion of a fully-underwritten open offer to investors involving the issue of 1,295,976,080 new IRC shares (the 'Open Offer'), on the basis of 4 offer shares for every 15 existing shares at the subscription price of HK$0.315 per offer share. The underwriters are Pine River, Sothic Capital and JABCAP respectively.

As a result of the Open Offer, Petropavlovsk's stake in IRC reduced from 45.39% to 35.83%. The Group remains a major shareholder. Consequently, IRC is now an associate of Petropavlovsk and not a subsidiary.

Further information on the presentation of IRC may be found in note 27 of the Financial Statements.

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

# Chief Financial Officer's Statement

For the year ended 31 December 2015

## Andrey Maruta

### Financial Highlights

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Continuing operations | | |
| Total attributable gold production ('000oz) | 504.1 | 624.5 |
| Gold sold ('000oz) | 481.9 | 617.2 |
| Group revenue | 599.9 | 865.0 |
| Average realised gold price (US$/oz) | 1,178 | 1,331 |
| Average LBMA gold price afternoon fixing (US$/oz) | 1,160 | 1,266 |
| Total average cash costs (US$/oz) [(a),(b)] | 749 | 860 |
| All-in sustaining costs [(b), (c)] | 874 | 972 |
| Underlying EBITDA [(d)] | 172.8 | 251.8 |
| Loss for the period | (297.5) | (347.7) |
| From continuing operations | (190.5) | (182.2) |
| From discontinued operations | (107.0) | (165.5) |
| Basic loss per share | (US$0.09) | (US$1.33) |
| From continuing operations | (US$0.07) | (US$0.94) |
| From discontinued operations | (US$0.02) | (US$0.39) |
| Net cash from operating activities | 103.4 | 133.2 |
| From continuing operations | 111.0 | 168.8 |
| From discontinued operations | (7.6) | (35.6) |

*(a) Calculation of total cash costs ("TCC") is set out in the section Hard-rock mines below.*

*(b) The Group disposed its alluvial operations in April 2015. The comparative data for the year ended 31 December 2014 was restated accordingly to ensure comparability.*

*(c) All-in sustaining costs ("AISC") and all-in costs ("AIC") are calculated in accordance with guidelines for reporting all-in sustaining costs and all-in costs published by the World Gold Council. Calculation is set out in the section All-in sustaining costs and all-in costs below.*

*(d) Reconciliation of loss for the period and underlying EBITDA is set out in note 35 to the consolidated financial statements.*

| | 31 December 2015 US$ million | 31 December 2014 US$ million |
|---|---|---|
| Cash and cash equivalents | 28.2 [(e)] | 48.1 |
| Loans | (552.8) | (664.5) |
| Convertible bonds [(f)] | (85.5) | (313.3) |
| Net Debt | 610.0 | (929.7) |

*(e) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development.*

*(f) US$100.0 million convertible bonds due on 18 March 2020 at amortised cost (31 December 2014: US$310.5 million convertible bonds due on 18 March 2015 at amortised cost).*

Note: Figures may not add up due to rounding.

### Revenue

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Revenue from hard-rock mines | 568.7 | 786.9 |
| Revenue from alluvial operations | – | 38.6 |
| Revenue from other operations | 31.2 | 39.5 |
| Total | 599.9 | 865.0 |

**Physical volumes of gold production and sales**

| | 2015<br>oz | 2014<br>oz |
|---|---|---|
| Gold sold from hard-rock mines | 481,884 | 588,231 |
| Gold sold from alluvial operations | – | 28,982 |
| | 481,884 | 617,213 |
| Movement in gold in circuit and doré-bars | 22,216 | 7,287 |
| Total attributable production | 504,100 | 624,500 |

Group revenue during the period was US$599.9 million, 31% lower than the US$865.0 million achieved in 2014.

Revenue from hard-rock mines was US$568.7 million, 28% lower than the US$786.9 million achieved in 2014. Gold remains the key commodity produced and sold by the Group, comprising 95% of total revenue generated in 2015. The physical volume of gold sold from hard-rock mines decreased by 18% from 588,231 ounces in 2014 to 481,884 ounces in 2015. The average realised gold price decreased by a 11% from US$1,331/oz in 2014 to US$1,178/oz in 2015. The average realised gold price was above the average market price of US$1,160/oz, reflecting the positive effect of hedge arrangements.

Hard-rock mines sold 68,075 ounces of silver in 2015 at an average price of US$15/oz, compared to 190,573 ounces in 2014 at an average price of US$19/oz.

Revenue generated as a result of third-party work by the Group's in-house service companies contributed US$31.2 million to group revenue in 2015 compared to US$39.5 million in 2014. This was primarily attributable to sales generated by Group's engineering and research institute, Irgiredmet, of US$28.6 million in 2015 compared to US$34.1 million in 2014, principally from engineering services and the procurement of materials, consumables and equipment for third parties.

*Cash flow hedge arrangements*

In order to increase certainty in respect of a significant proportion of its cash flows, the Group continued its hedging arrangements through gold forward contracts.

Forward contracts to sell an aggregate of 178,449 ounces of gold matured during the year and contributed US$12.6 million to cash revenue (2014: US$42.3 million from forward contracts to sell an aggregate of 364,253 ounces of gold).

Forward contracts to sell an aggregate of 71,551 ounces of gold at an average price of US$1,116 per ounce were outstanding as at 31 December 2015.

In October 2014, the Group also purchased a number of gold put options for an aggregate of 150,000 ounces of gold with a strike price of US$1,150/oz as part of a downside protection strategy. The option contracts matured over the period from January 2015 to June 2015. The aggregate premium paid was US$4.8 million.

Forward contracts and a US$3.2 million decrease in options fair value contributed US$20/oz to the average realised gold price.

The Group constantly monitors gold price and hedges some portion of production for periods of up to 12 months as considered necessary.

Forward contracts to sell an aggregate of 37,850 ounces of gold at an average price of US$1,116/oz are outstanding as at 28 April 2016.

### Underlying EBITDA and analysis of operating costs

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Loss for the period from continuing operations | (190.5) | (182.2) |
| Add/(less): | | |
| Interest expense | 71.5 | 67.7 |
| Investment income | (1.0) | (1.7) |
| Other finance gains | (9.1) | – |
| Foreign exchange losses | 12.0 | 31.3 |
| Taxation | 48.9 | 167.9 |
| Depreciation | 129.1 | 144.0 |
| Reversal of impairment of mining assets | – | (28.9) |
| Impairment of exploration and evaluation assets | 37.4 | 22.0 |
| Impairment of ore stockpiles | 17.4 | 10.1 |
| Impairment of investments in associates | – | 9.7 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less cost to sell | – | 11.9 |
| Share of results of associates [a] | 57.0 | – |
| Underlying EBITDA | 172.8 | 251.8 |

*(a) Group's share of interest expense, investment income, other finance gains and losses, foreign exchange losses, taxation, depreciation and impairment recognised by an associate (IRC).*

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

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Pioneer | 118.6 | 131.5 |
| Pokrovskiy | 16.1 | 29.5 |
| Malomir | 5.7 | 25.7 |
| Albyn | 66.5 | 90.8 |
| Total Hard-rock mines | 206.9 | 277.5 |
| Alluvial operations | – | 10.0 |
| Corporate and other | (34.1) | (35.7) |
| Underlying EBITDA | 172.8 | 251.8 |

### Hard-rock mines

During 2015, hard-rock mines generated underlying EBITDA of US$206.9 million compared to US$277.5 million underlying EBITDA in 2014.

Total cash costs for hard-rock mines decreased from US$860/oz in 2014 to US$749/oz in 2015, primarily reflecting the effect of cost optimisation measures undertaken by the Group in response to the declining gold price environment and scheduled decrease in grades processed as well as the positive effect of Rouble depreciation. The decrease in the average realised gold price from US$1,331/oz in 2014 to US$1,178/oz in 2015 and the decrease in physical ounces sold resulted in US$124.1 million decrease in the underlying EBITDA. This effect was partially mitigated by the reduction in the total cash costs which had a net US$53.5 million positive contribution to the underlying EBITDA in 2015.

The key components of operating cash expenses are wages, electricity, diesel, chemical reagents and consumables, as set out in the table below. The key cost drivers affecting 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 2014 there was no significant inflation of Rouble denominated costs, in particular, electricity costs in Rouble increased by up to 1% (decreased by up to 37% in US Dollar terms), the cost of chemical reagents increased by up to 6% (decreased by up to 50% in US Dollar terms), consumables prices increased by up to 2% (decreased by up to 37% in US Dollar terms) and cost of diesel decreased by up to 1% (decreased by up to 38% in US Dollar terms). The impact of low Rouble price inflation was reinforced by the 59% average depreciation of the Rouble against the US Dollar, with the average exchange rate for the period going from 38.4 Roubles per US Dollar in 2014 to 61.30 Roubles per US Dollar in 2015.

Refinery and transportation costs are variable costs dependent on the production volume. Mining tax is also a variable cost dependent on production volume and the gold price realised. The mining tax rate is 6%.

| | 2015 | | 2014 (b) | |
|---|---|---|---|---|
| | US$ million | % | US$ million | % |
| Staff cost | 61.8 | 19 | 88.6 | 22 |
| Materials | 129.9 | 39 | 148.6 | 37 |
| Fuel | 55.3 | 17 | 71.6 | 18 |
| Electricity | 25.0 | 8 | 35.1 | 9 |
| Other external services | 27.4 | 8 | 19.9 | 5 |
| Other operating expenses | 29.8 | 9 | 37.2 | 9 |
| | 329.2 | 100 | 401.0 | 100 |
| Movement in ore stockpiles, work in progress and bullion in process attributable to gold production (a) | (17.8) | | 26.4 | |
| Total operating cash expenses | 311.4 | | 427.4 | |

*(a) Excluding deferred stripping*

*(b) The Group disposed its alluvial operations in April 2015. The comparative data for 2014 was restated accordingly to ensure comparability.*

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| | Hard-rock mines | | | | 2015 | 2014 [a] |
|---|---|---|---|---|---|---|
| | Pioneer US$ million | Pokrovskiy US$ million | Malomir US$ million | Albyn US$ million | Total US$ million | Total US$ million |
| Revenue | | | | | | |
| Gold | 253.9 | 61.0 | 71.0 | 181.7 | 567.6 | 783.2 |
| Silver | 0.6 | 0.2 | 0.1 | 0.1 | 1.0 | 3.7 |
| | 254.6 | 61.2 | 71.1 | 181.8 | 568.7 | 786.9 |
| Expenses | | | | | | |
| Operating cash expenses | 118.3 | 40.8 | 59.0 | 93.3 | 311.4 | 427.4 |
| Refinery and transportation | 0.5 | 0.1 | 0.1 | 0.3 | 1.1 | 2.9 |
| Other taxes | 2.5 | 0.5 | 2.1 | 2.6 | 7.7 | 13.5 |
| Mining tax | 14.7 | 3.7 | 4.1 | 10.7 | 33.1 | 45.5 |
| Deferred stripping costs | – | – | – | 8.4 | 8.4 | 20.1 |
| Depreciation and amortisation | 45.9 | 12.3 | 18.2 | 50.8 | 127.2 | 138.2 |
| Reversal of impairment of mining assets | – | – | – | – | – | (28.9) |
| Impairment of exploration and evaluation assets | – | 2.3 | 0.1 | – | 2.5 | 3.6 |
| Impairment of ore stockpiles | 11.9 | (0.9) | 6.1 | 0.3 | 17.4 | 10.1 |
| Operating expenses | 193.7 | 58.9 | 89.8 | 166.4 | 508.9 | 632.3 |
| Result of precious metals operations | 60.8 | 2.3 | (18.7) | 15.4 | 59.8 | 154.6 |
| | | | | | | |
| Segment EBITDA | 118.6 | 16.1 | 5.7 | 66.5 | 206.9 | 277.5 |
| | | | | | | |
| Physical volume of gold sold, oz | 216,319 | 51,573 | 59,831 | 154,160 | 481,884 | 588,231 |
| Cash costs | | | | | | |
| Operating cash expenses | 118.3 | 40.8 | 59.0 | 93.3 | 311.4 | 427.4 |
| Refinery and transportation | 0.5 | 0.1 | 0.1 | 0.3 | 1.1 | 2.9 |
| Other taxes | 2.5 | 0.5 | 2.1 | 2.6 | 7.7 | 13.5 |
| Mining tax | 14.7 | 3.7 | 4.1 | 10.7 | 33.1 | 45.5 |
| Deferred stripping costs | – | – | – | 8.4 | 8.4 | 20.1 |
| Operating cash costs | 135.9 | 45.1 | 65.4 | 115.3 | 361.8 | 509.4 |
| Deduct: co-product revenue | (0.6) | (0.2) | (0.1) | (0.1) | (1.0) | (3.7) |
| Total cash costs | 135.3 | 44.9 | 65.3 | 115.2 | 360.7 | 505.7 |
| | | | | | | |
| Average TCC/oz, US$/oz | 625 | 871 | 1,092 | 747 | 749 | 860 |

*(a) The Group disposed its alluvial operations in April 2015. The comparative data for 2014 was restated accordingly to ensure comparability.*

### All-in sustaining costs and all-in costs

AISC decreased from US$972/oz in 2014 to US$874/oz in 2015, reflecting the reduction in TCC as well as lower central administration expenses and sustaining capital expenditure related to the existing mining operations.

AIC decreased from US$1,087/oz in 2014 to US$932/oz in 2015, reflecting the decrease in all-in sustaining costs explained above, decrease in exploration expenditure and decrease of capital expenditure related to new projects, which was limited to fulfilling existing contractual commitments relating to POX.

| | Hard-rock mines | | | | 2015 | 2014 [a] |
|---|---|---|---|---|---|---|
| | Pioneer US$ million | Pokrovskiy US$ million | Malomir US$ million | Albyn US$ million | Total US$ million | Total US$ million |
| Physical volume of gold sold, oz | 216,319 | 51,573 | 59,831 | 154,160 | 481,884 | 588,231 |
| Total cash costs | 135.3 | 44.9 | 65.3 | 115.2 | 360.7 | 505.7 |
| Average TCC/oz, US$/oz | 625 | 871 | 1,092 | 747 | 749 | 860 |
| Impairment of ore stockpiles | 9.5 | (0.9) | 0.3 | 0.3 | 9.2 | 14.5 |
| Adjusted operating costs | 144.8 | 44.0 | 65.6 | 115.5 | 369.9 | 520.2 |
| Central administration expenses | 13.7 | 3.3 | 3.8 | 9.7 | 30.4 | 36.4 |
| Capitalised stripping at end of the period | – | – | – | 18.0 | 18.0 | 8.4 |
| Capitalised stripping at beginning of the period | – | – | – | (8.4) | (8.4) | (20.1) |
| Close-down and site restoration | (0.5) | (0.1) | (0.1) | (1.1) | (1.7) | 3.9 |
| Sustaining capital expenditure | 4.7 | 0.1 | 1.2 | 6.7 | 12.7 | 23.2 |
| All-in sustaining costs | 162.7 | 47.3 | 70.6 | 140.3 | 420.9 | 572.0 |
| All-in sustaining costs, US$/oz | 752 | 918 | 1,180 | 910 | 874 | 972 |
| Exploration expenditure | 7.1 | 1.0 | 4.2 | 6.6 | 18.9 | 33.2 |
| Capital expenditure | 0.4 | – | 0.6 | – | 1.0 | 38.4 |
| Impairment of ore stockpiles [b] | 2.4 | – | 5.8 | – | 8.2 | (4.4) |
| All-in costs | 172.6 | 48.3 | 81.2 | 146.9 | 449.0 | 639.3 |
| All-in costs, US$/oz | 798 | 937 | 1,357 | 953 | 932 | 1,087 |

*(a) The Group disposed its alluvial operations in April 2015. The comparative data for 2014 was restated accordingly to ensure comparability.*

*(b) Refractory ore stockpiles to be processed at the POX Hub.*

### Corporate and other

The Group has corporate offices in London, Moscow and Blagoveschensk which together represent the central administration function. Central administration expenses decreased by US$7.8 million from US$38.2 million in 2014 to US$30.4 million in 2015, primarily reflecting depreciation of the Rouble against the US Dollar.

During 2015, corporate and other operations contributed US$(34.1) million to the underlying EBITDA vs. US$(35.7) million in 2014.

### Impairment review

The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no impairment was required as at 31 December 2015.

The forecast future cash flows are based on the Group's current mining plan. 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 2015 | Year ended 31 December 2014 |
|---|---|---|
| Long-term gold price | US$1,150/oz | US$1,200/oz |
| Discount rate [(a)] | 8% | 9.5% |
| RUB/US$ exchange rate | RUB65.0/US$ | RUB60.0/US$ |

*(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 10.1% (2014: 11.8%)*

*Impairment of exploration and evaluation assets*

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

- Taking into consideration the alternative means for realising value of from the Visokoe asset through a sale, and referring to the indicative aggregate consideration from the potential buyer of US$20 million for Visokoe asset and equity investment in Verkhnetisskaya Ore Mining Company, a US$32.5 million impairment charge has been recorded against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets;
- US$4.0 million impairment charges have been recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various license areas, located in the Amur region; and
- A further US$0.9 million impairment charge has been recorded against exploration and evaluation assets in Guyana.

*Impairment of ore stockpiles*

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

| | Year ended 31 December 2015 | | | Year ended 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | Pre-tax impairment charge/ (reversal of impairment) US$ million | Taxation US$ million | Post-tax impairment charge/ (reversal of impairment) US$ million | Pre-tax impairment charge/ (reversal of impairment) US$ million | Taxation US$ million | Post-tax impairment charge/ (reversal of impairment) US$ million |
| Pokrovskiy | (0.9) | 0.2 | (0.7) | (3.4) | 0.7 | (2.7) |
| Pioneer | 11.9 | (2.4) | 9.6 | 7.1 | (1.4) | 5.7 |
| Malomir | 6.1 | (1.2) | 4.9 | (3.2) | 0.6 | (2.5) |
| Albyn | 0.3 | (0.1) | 0.2 | 9.6 | (1.9) | 7.7 |
| | 17.4 | (3.5) | 13.9 | 10.1 | (2.0) | 8.1 |

### Interest income and expense

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Investment income | 1.0 | 1.7 |

The Group earned US$1.0 million interest income on its cash deposits with banks.

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Interest expense | 71.3 | 80.6 |
| Less interest capitalised | – | (13.4) |
| Other | 0.2 | 0.5 |
| Total | 71.5 | 67.7 |

Interest expense for the period was comprised of US$13.6 million effective interest on the Convertible Bonds and US$57.7 million interest on bank facilities (2014: US$25.4 million and US$55.2 million, respectively). During 2015, no interest expense was capitalised as part of mine development costs within property, plant and equipment (2014: US$13.4 million).

### Other finance gains

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Gain on settlement of the Existing Bonds | 0.5 | – |
| Fair value gains on derivative financial instruments | 6.4 | – |
| Guarantee fee in connection with IRC's ICBC facility | 2.2 | – |
| Total | 9.1 | – |

### Taxation

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Tax charge | 48.9 | 167.9 |

The Group is subject to corporation tax under the UK, Russia and Cyprus tax legislation. The average statutory tax rate for 2015 was 20.25% in the UK and 20% in Russia.

The tax charge for the period arises primarily in relation to the Group's precious metals operations and is represented by a current tax of US$31.8 million in 2015 (2014: US$34.5 million) and a deferred tax charge, which is a non-cash item, of US$17.1 million (2014: deferred tax charge of US$133.4 million). Included in the deferred tax charge in 2015 is a US$40.3 million foreign exchange effect which primarily arises because the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US$ carrying value.

During the period, the Group made corporation tax payments in aggregate of US$32.9 million in Russia (2014: corporation tax payments in aggregate of US$34.0 million in Russia).

### Loss per share

| | 2015 | 2014 |
|---|---|---|
| Loss for the period from continuing operations attributable to equity holders of Petropavlovsk PLC | US$190.2 million | US$184.3 million |
| Weighted average number of Ordinary Shares | 2,657,332,030 | 196,423,244 |
| Basic loss per ordinary share from continuing operations | US$0.07 | US$0.94 |

Basic loss per share for 2015 was US$0.07 compared to US$0.94 basic loss per share for 2014. The key factor affecting the basic loss per share was the increase of weighted average number of Ordinary Shares from 196,423,244 for 2014 to 2,657,332,030 for 2015.

The total number of Ordinary Shares in issue as at 31 December 2015 was 3,300,561,697 (31 December 2014: 197,638,425).

**Discontinued operations and investment in associate – IRC**

On 7 August 2015, IRC completed an Open Offer resulting in the issue of 1,295,976,080 shares. The Group did not subscribe for the Offer Shares to which it was entitled and the Group's interest in the share capital of IRC was diluted to 35.83%. With other significant shareholder blocks in place following the completion of the Open Offer and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group is no longer considered to be exercising de facto control over IRC and, accordingly, IRC ceased being a subsidiary of the Group and is recognised as an associate to the Group from 7 August 2015.

IRC share price was HK$0.35 as at 7 August 2015 and the gain from disposal of IRC was US$0.7 million.

During the period to 7 August 2015, IRC generated US$10.7 million operating losses. The Group also recorded a further US$96.6 million write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell, based on IRC's share price of HK$0.35 as at 7 August 2015, and reflect the change in the market share price of IRC shares.

With effect from 7 August 2015, the Group accounts for IRC as an associate under the equity accounting method as required by IAS 28 "Investments in Associates and Joint Ventures". Under this method, the fair value of the Group's interest in IRC on 7 August 2015 of US$99.6 million became the deemed historical cost of the associate, which was recognised within the investments in associate line as a single amount following de-recognition of the separate "asset held for sale", "liability held for sale" and "non-controlling interest" at that date.

During the period from 7 August 2015 to 31 December 2015, the Group recognised its 35.83% share of IRC loss for the period as a loss from an associate of US$60.4 million, including US$49.7 million attributed to a further impairment of K&S Project.

**Financial position and cash flows**

| | 31 December 2015 US$ million | 31 December 2014 US$ million |
|---|---|---|
| Cash and cash equivalents | 28.2 | 48.1 |
| Loans | (552.8) | (664.5) |
| Convertible bonds [(a)] | (85.5) | (313.3) |
| Net Debt | (610.0) | (929.7) |

*(a) US$100.0 million convertible bonds due on 18 March 2020 at amortised cost (31 December 2014: US$310.5 million convertible bonds due on 18 March 2015 at amortised cost).*

| | 2015 US$ million | 2014 US$ million |
|---|---|---|
| Net cash from operating activities: | | |
| Continuing operations | 111.0 | 168.8 |
| Discontinued operations | (7.6) | (35.6) |
| | 103.4 | 133.2 |
| Net cash used in investing activities: | | |
| Continuing operations | (23.2) | (91.4) |
| Discontinued operations | (43.0) | (95.9) |
| | (66.2) | (187.3) |
| Net cash used in financing activities: | | |
| Continuing operations | (110.6) | (161.8) |
| Discontinued operations | 74.2 | 89.8 |
| | (36.4) | (72.0) |

### Key movements in cash and net debt from continuing operations

| | Cash US$ million | Debt US$ million | Net Debt US$ million |
|---|---|---|---|
| As at 1 January 2015 | 48.1 | (977.8) | (929.7) |
| Net cash generated by operating activities before working capital changes | 167.0 | | |
| Decrease in working capital | 43.5 | | |
| Income tax paid | (32.9) | | |
| Capital expenditure on Gold Division projects and in-house service companies | (13.7) | | |
| Exploration expenditure on Gold Division projects | (18.9) | | |
| Proceeds from Rights issue | 156.2 | | |
| Amounts repaid under bank facilities | (114.0) | 114.0 | |
| Settlement of the Existing Bonds | (135.5) | 225.1 | |
| Interest accrued | | (71.3) | |
| Interest paid | (66.6) | 66.6 | |
| Refinancing costs | (34.4) | 5.1 | |
| Proceeds from disposal of subsidiaries, net of cash disposed and net of liabilities settled | 6.5 | | |
| Funds received under investment agreement with the Russian Ministry of Far East Development | 15.1 | | |
| Foreign exchange losses | (4.7) | | |
| Other | 12.5 | | |
| As at 31 December 2015 | 28.2 [(a)] | (638.3) | (610.0) |

*(a) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development*

The decrease in working capital reflects the efforts undertaken by the Group to optimise the working capital structure and effect of Rouble depreciation, including:

– an aggregate US$11.6 million decrease in ore stockpiles primarily due to the partial processing of ore stockpiles at Pioneer, Pokrovskiy and Malomir which contributed US$3.2million, US$5.0 million and US$6.3 million, respectively, partially offset by the increase in ore stockpiles at Albyn (US$2.9 million);

– US$24.2 million decrease in store and spare parts and construction materials;

As at 31 December 2015, there were no undrawn facilities available to the continuing operations.

**Capital expenditure**

The Group invested an aggregate of US$32.6 million on its gold projects compared to US$96.8 million invested in 2014. The key areas of focus this year were on fulfilling existing contractual commitments in relation to the POX Hub project, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations.

| | Exploration expenditure US$ million | Development expenditure and other CAPEX US$ million | Total US$ million |
|---|---|---|---|
| POX | – | 1.0 | 1.0 |
| Pokrovskiy and Pioneer | 7.8 | 4.2 | 12.0 |
| Malomir | 4.1 | 1.1 | 5.2 |
| Albyn | 6.4 | 6.3 | 12.7 |
| Upgrade of in-house service companies | – | 1.1 | 1.1 |
| Other | 0.6 | – | 0.6 |
| | 18.9 | 13.7 | 32.6 |

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### Foreign currency exchange differences

The Group's 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 the 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 2015 | 31 December 2014 |
|---|---|---|
| GB Pounds Sterling (GBP: US$) | 0.68 | 0.64 |
| Russian Rouble (RUB : US$) | 72.88 | 56.26 |

The Rouble depreciated by 30% against the US Dollar during 2015, from RUB56.26 : USD1 as at 31 December 2014 to RUB72.88 : USD1 as at 31 December 2015. The average year-on-year depreciation of the Rouble against the US Dollar was approximately 59%, with the average exchange rate for 2015 being RUB61.30 : USD1 compared to RUB38.44 : USD1 for 2014.

As a result of the significant volatility of the Russian Rouble, the Group recognised foreign exchange losses of US$12 million in 2015 (2014: US$31.3 million) arising primarily on Rouble denominated net monetary assets.

### The Refinancing

On 2 February 2015, the Group announced a proposed Refinancing which was completed on 18 March 2015. The Refinancing consisted of the following:

- Rights issue pursuant to which 3,102,923,272 new Ordinary Shares were issued at subscription price of £0.05 per Ordinary Share as set out below:
  - 2,114,460,594 Ordinary Shares were issued for cash consideration raising £105.7 million (equivalent to US$156.2 million) gross cash proceeds; and
  - 988,462,678 Ordinary Shares were issued in exchange for the Existing Bonds as part of settlement of the Existing Bonds (please refer to the details set out below).
- Issue of the new convertible bonds:

  On 18 March 2015, the Group issued US$100 million convertible bonds due on 18 March 2020 (the 'New Bonds'). The New Bonds were issued pursuant to the completion of the exchange offer of the Existing Bonds as set out below.

  The New Bonds were issued by the Group's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The New Bonds carry a coupon of 9.00% payable quarterly 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 £0.0826 per Ordinary Share, subject to adjustment for certain events, and the conversion exchange rate has been fixed at US$1.5171: £1. The New 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 18 March 2015.
- Settlement of the Existing Bonds:

  The Existing Bonds with a par value of US$310.5 million were settled as follows:

| | Par value US$ million |
|---|---|
| Portion settled in cash from the net cash proceeds of the Rights Issue | 135.5 |
| Portion settled in equity through the debt-for-equity exchange commitments | 75.0 |
| Portion settled through the issuance of the New Bonds | 100.0 |
| Par value of the Existing Bonds | 310.5 |

- Bank Waivers:

  The Group obtained waivers and relaxation of certain financial covenants for the period until 31 December 2015, inclusive.

The aggregate transaction costs of US$42.8 million, out of which US$7.8 million were paid as at 31 December 2014, were primarily allocated to equity (US$33.4 million) and to the New Bonds (US$5.1 million).

### Disposal of alluvial operations

On 16 April 2015, the Group entered into a conditional Sales and Purchase Agreement relating to the sale of its 95.7% interest in JSC ZDP Koboldo ('Koboldo'). The disposal was completed on 22 April 2015.

Koboldo is an alluvial gold operation located in the Amur region in the Far East of Russia and represents an alluvial operations business segment. The net assets of Koboldo were written down to fair value based on the indicative cash consideration as at 31 December 2014. Accordingly, the disposal did not result in significant gains or losses on disposal in 2015.

### Disposal of investments in associates

On 7 April 2015, the Group entered into a Share Purchase Agreement to sell its 25% interest in JSC ZRK Omchak ("Omchak") for a total cash consideration of US$1 million.

### Investment agreement with the Russian Ministry of Far East Development

On 14 December 2015, the Group entered into an investment agreement with the Russian Ministry of Far East Development (the 'Investment Agreement'). The Investment

Agreement involves provision of RUB5.5billion (an equivalent to c.US$75 million as at 31 December 2015) funding towards the construction of the electricity power line in the North-East of the Amur Region of Russia, where the Group's Albyn and Malomir mines and adjacent licence areas are operated, during the period 2015 – 2019. The funds are advanced to the Group and then should be transferred to the joint-stock company Far East Grid Distribution Company ('DRSK'), who is to engage a contractor to build the relevant power supply infrastructure. The Group's responsibility under the Investment Agreement will be to monitor the progress and to report to the Russian Ministry of Far East Development. The Group will be taking ultimate responsibility for the construction of the power line. Upon completion, the Group will get access to the enhanced capacity of the power supply infrastructure in the region. Under the terms of the Investment Agreement, the Group has certain capital commitments, including further development of Albyn and Malomir mines.

As at 31 December 2015, the Group received RUB1.1billion (an equivalent to US$15.1 million) funds under the Investment Agreement.

**POX JV**
On 27 April 2016, the Group entered into an agreement with LLC GMD Gold ('GMD Gold') to set up a new enterprise whereby the Group will contribute the existing POX Hub assets and GMD Gold will provide US$120 million finance towards completion of the POX Hub development. Upon completion of the POX Hub development, each party will have the right to use the 50% capacity of the POX Hub. This transaction will require shareholder approval.

**Acquisition of Amur Zoloto**
On 28 April 2016, the Group entered into a contribution agreement to acquire 100% share in the LLC Amur Zoloto, a gold company with production and development assets in the Khabarovsk Region in the Far East of Russia. Upon completion, consideration for the transaction will be satisfied by the issue of new ordinary shares in the Company. This transaction will require shareholder approval.

**Going concern**
The Group monitors and manages its liquidity risk on an ongoing basis to ensure that it has access to sufficient funds to meet its obligations. Cash forecasts are produced regularly based on a number of inputs including, but not limited to, forecast commodity prices and impact of hedging arrangements, Group mining plan, forecast expenditure and debt repayment schedules. Sensitivities are run for different scenarios including, but not limited to, changes in commodity prices, cost inflation, different production rates from the Group's producing assets and the timing of expenditure on development projects. This is done to identify risks to liquidity and covenant compliance and enable management to develop appropriate and timely mitigation strategies. The Group meets its capital requirements through a combination of sources including cash generated from operations and external debt.

The Group performed an assessment of the forecast cash flows and covenant compliance in relation to bank facilities for the period of 12 months from the date of approval of the 2015 Annual Report and Accounts. As at 31 December 2015, the Group had sufficient liquidity headroom and complied with related financial covenants. The Group's projections demonstrate that although the Group expects to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule on 20 June 2016 and a breach of certain financial covenants, being leverage and interest service ratios, within the bank facilities as at the next measurement date, being 30 June 2016, is likely to arise.

In view of the above, the Group is in negotiations with its principal lenders with a view to obtaining satisfactory modifications and temporary waivers regarding the existing covenants ahead of the testing period and the current repayment schedule ("Debt Restructuring"). The Group has received written comfort from their principal lenders intending to support the Debt Restructuring. If an agreement with the Group's principal lenders in relation to the Debt Restructuring cannot be reached, and as a result a covenant breach and/ or missed debt repayment occurs, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$276.25 million as at 31 December 2015. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. The Directors of IRC have forecast that certain financial covenants under the ICBC facility are likely to be breached at the next testing date of 30 June 2016 and IRC will not have sufficient liquidity to facilitate a debt repayment of US$21.5 million due on 21 June 2016, which will cause the related facility to become immediately due and payable. However, IRC has obtained from ICBC approved waivers of the financial covenants until and inclusive of 31 December 2017, conditional, among others, on approval of the Debt Restructuring by the Group's principal lenders, a result of which is that approval of the Debt Restructuring must be completed and approved by 20 June 2016 to facilitate IRC's debt repayment schedule being met.

The risk that the Group will be unable to achieve appropriate mitigating actions prior to 20 June 2016 or secure an appropriate relaxation or amendment of its financial covenants in order to avoid a breach of covenants is a material uncertainty which may cast significant doubt upon the Company's ability to continue to apply the going concern basis of accounting.

Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation, after taking into account the aforementioned factors, that the Group will 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 2015 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

**2016 Outlook**
The Group is on track to achieve 2016 production guidance of 460-500Koz.
The Group's operating cash expenses are substantially Rouble denominated. The Group expects its total average cash costs of production in 2016 to be c.US$700/oz at current exchange rate. Net debt is expected to decrease to c.US$570 million by the end of 2016, assuming an average gold price of US$1,200/oz for the remainder of 2016.

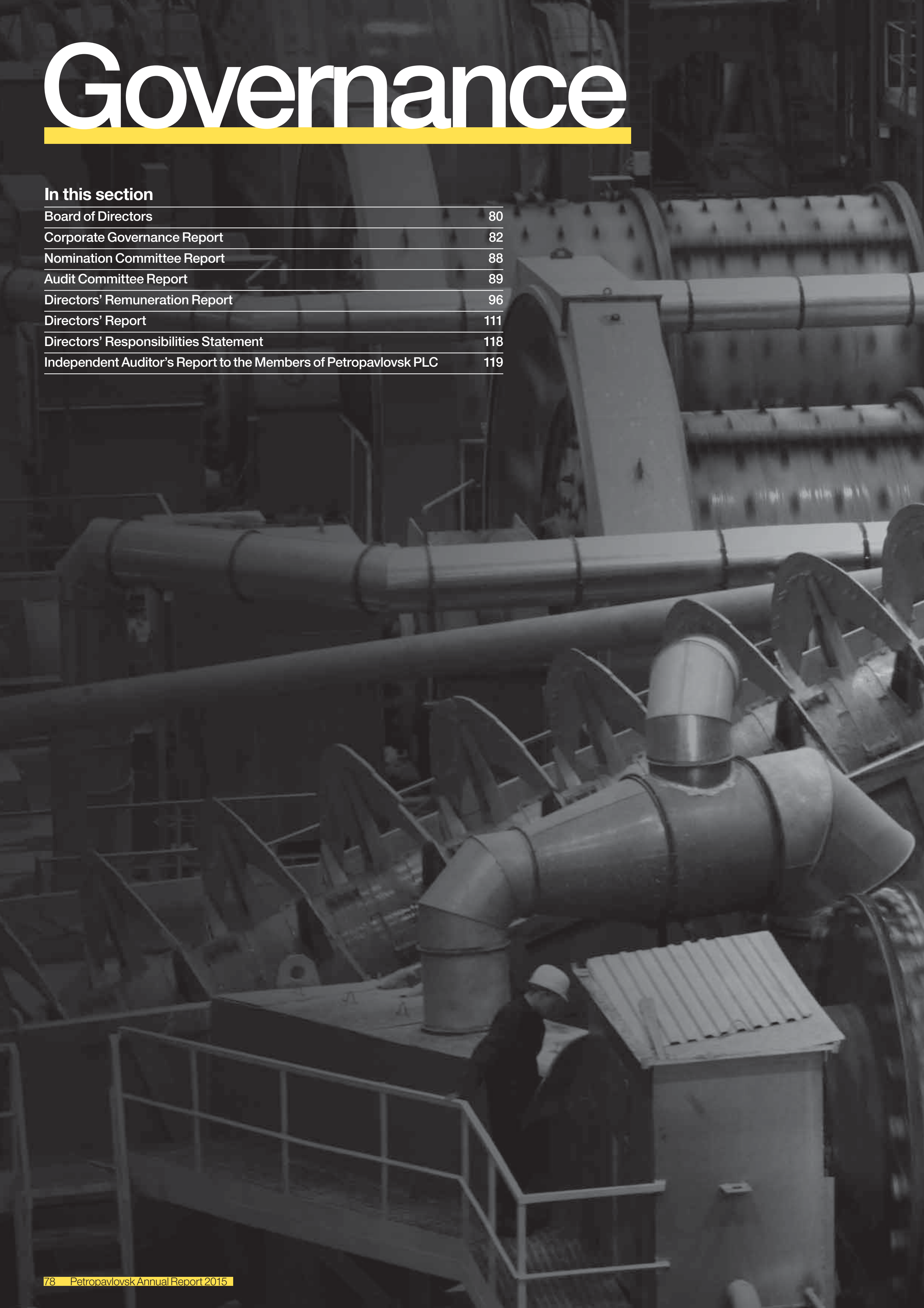
The Strategic Report was approved by the Board on 28 April 2016 and signed on its behalf by:

**Peter Hambro**
Chairman

# 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 Heads Farm Partnership.

*Committee membership:* Chairman of the Nomination and Executive Committees

## Dr Pavel Maslovskiy
**Chief Executive Officer**

One of the co-founders of the Company. Dr Maslovskiy held directorships within the Group including the position of Chief Executive Officer from the Group's inception in 1994 until December 2011, when he relinquished all remunerated positions following his appointment as a Senator-Member of the Federation Council (Upper House of the Russian Parliament). Dr Maslovskiy retired as a Senator-Member in October 2014 and was re-appointed as Chief Executive Officer, in November 2014. Dr Maslovskiy acted as Honorary President during 2012 to November 2014.

*Experience:* Prior to embarking on his business career, Dr Maslovskiy was a Professor of Metallurgy at the Moscow Aircraft Technology Institute.

*External appointments:* None.

*Committee membership:* Dr Maslovskiy is a member of the Executive Committee.

## 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 and joined the Group in 2003 as Group Chief Accountant. He was appointed Deputy Finance Director in 2005 and Finance Director in 2006.

Mr Maruta is a fellow member of The Association of Chartered Certified Accountants.

*External appointments:* None.

*Committee membership:* Mr Maruta is a member of the Executive Committee.

## Sir Roderic Lyne
**Senior Independent Director**

Sir Roderic Lyne was appointed as Senior Independent Director on 1 November 2015. He 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:* Deputy Chairman of the Council of the Royal Institute of International Affairs (Chatham House) and a member of the Committee of the Iraq Inquiry. In addition, Sir Roderic is a Non-Executive Director of JP Morgan Bank International LLC.

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

## Mr Robert Jenkins
**Non-Executive Director**

Mr Robert Jenkins was appointed as a Non-Executive Director on 30 April 2015.

*Experience:* Mr Jenkins is a chartered accountant, having qualified with KPMG in the UK, and has over 20 years of Russia-related investment experience, including in the natural resources sectors. He is also a fluent Russian speaker.

Mr Jenkins was Finance Director of Eurasia Mining, a Russia focused mining exploration company, admitted to the AIM market of the London Stock Exchange, and chief financial officer of Urals Energy, a Russia-based oil exploration and production company, prior to that company's admission to AIM.

Mr Jenkins has an MA in Modern History and Modern Languages from Oxford University.

*External appointments:*
Mr Jenkins is a partner at NorthStar Corporate Finance, which specialises in advising companies on Russia related as well as other European acquisition and financing transactions. He is also the Senior Independent Director and Audit Committee Chairman of Ruspetro plc, a UK Stock Exchange-listed, Russia focused independent oil and gas production company.

*Committee membership:*
Mr Jenkins is Chairman of the Company's Audit Committee.

## Mr Alexander Green
**Non-Executive Director**

Mr Alexander Green was appointed as a Non-Executive Director on 27 August 2015.

*Experience:* Mr Green has two decades of experience in the resources industry. From 2003 to 2012, he was a Marketing Director at BHP Billiton, a leading global resources company. Mr Green has a wealth of experience including risk management, development of business strategy and corporate governance.

Mr Green holds a Master's degree in Global History from the London School of Economics and Political Science and a Bachelor's degree in Civil Engineering from the University of Salford.

*External appointments:* Mr Green focuses on angel investing, academic study and mentoring to young entrepreneurs, social enterprises and charities. Mr Green is a Board Observer with Fluidic Analytics Limited, a company that builds tools for protein characterisation.

Mr Green was a Non-Executive Director of Torm A/S Copenhagen, a Danish shipping company listed on the Nasdaq Copenhagen Stock Exchange, from January 2013 until August 2015 when he retired from the board following the company's financial restructuring.

*Committee membership:*
Mr Green is a member of the Company's Audit, Remuneration and HSE Committees.

## Mr Andrew Vickerman
**Non-Executive Director**

Mr Andrew Vickerman was appointed as a Non-Executive Director on 22 October 2015.

*Experience:* Mr Vickerman spent 20 years with Rio Tinto, one of the world's leading mining companies, the last ten as a member of the Operations and Executive Committees with responsibility for global communications and external relations. An economist by background he has previously worked for The World Bank and other international agencies.

Mr Vickerman holds BA, MA and PhD degrees in Economics from Cambridge University.

External appointments:
Mr Vickerman is a member of the Board of Trafigura Group Pte Ltd., an independent commodity trading and logistics house, Chairman of Alva Group, a technology company that provides business intelligence and Chairman of Direct Nickel Limited, an Australian business that has developed technology for processing nickel laterite deposits.

*Committee membership:*
Mr Vickerman is a member of the Company's Audit, Remuneration and HSE Committees.

# Corporate Governance Report

## The Board of Directors:

**Areas of focus in 2015**

- Refinancing of the Group's outstanding US$310.5 million Convertible Bonds due 2015 (the "Bonds")
- Delivering against the Group's financial targets – reduction in net debt and total cash costs
- Rebalancing the skills and experience of the Board.

**Areas of focus in 2016**

- Delivery of the Group's operational and financial targets
- Development of the Group's underground mining potential
- Recommencement of the construction of the POX plant.

## Chairman's introduction

## Dear shareholder

2015 was a year of significant change for both the Company and the Board. The year commenced with the Refinancing of the Group's outstanding Bonds. This completed successfully on 18 March 2015.

During the Refinancing and as communicated to our shareholders at that time, it was agreed that given the reduced size of the Company's market capitalisation relative to its previous levels, the size of the Board would be reduced from twelve to seven members. This has been achieved and the reduced Board now comprises three Executive Directors: myself as Chairman, Dr Pavel Maslovskiy (Chief Executive Officer) and Mr Andrey Maruta (Chief Financial Officer) and four independent Non-Executive Directors: Sir Roderic Lyne and Messrs Robert Jenkins, Alexander Green and Andrew Vickerman.

As envisaged, the new streamlined Board led us to review our Board Committee structure to ensure that it remains appropriate, providing a strong corporate governance framework to ensure that the Board continues to act responsibly and with accountability at all times and with consideration for all of our stakeholders. The new Committee structure is already strengthening our governance procedures, with the Board challenging the manner in which it assesses the Group's risks to ensure that its focus is on those with the highest potential impact. Further details of this review are provided in the Risks to Our Performance on pages 26 and 39. Details of the new Committee structure are provided below.

Following the Refinancing and given the continued subdued gold price environment during 2015, we decided to focus on the mining and production of ounces with the highest possible profit margin while enabling us to achieve our deleveraging programme targets. As detailed in the Strategic Review, the Board has approved a joint undertaking to complete construction of POX and provide the processing plant for refining refractory gold ores and float concentrates extracted by both parties. This is subject to shareholders approval. In addition, the Board is progressing the Group's underground mining potential. These are both critically important projects for the Group and, as such, they will remain a key focus of the Board during 2016. The recent appointments of Robert, Alexander and Andrew, with their wealth of relevant experience, will assist us in delivering our objectives.

**Directors' independence**
As previously advised, the appointment of both Alexander Green and Andrew Vickerman was supported by representatives of the former Bondholders, in accordance with the information provided in the rights issue Prospectus. However, neither Alexander nor Andrew has any additional responsibility to the former Bondholders in their capacity as new shareholders, beyond the duty that they owe to all shareholders. They are considered as "independent" Non-Executive Directors by the Company and also meet the "independence" criteria of the UK Corporate Governance Code (the "Code").

Shareholders may be aware that Sir Roderic Lyne has served on the Board of the Company for a continuous period of more than nine years, including his service as a director of Aricom plc, from October 2006 to April 2009.

As an independent Non-Executive Director, Sir Roderic played a pivotal role throughout the Refinancing, particularly given that both Pavel and I participated in the underwriting of the rights issue. Sir Roderic, together with his independent colleagues on the Board, helped to ensure that the Company adhered to good corporate governance throughout this transaction and during what was a particularly challenging period for the Executive team. In addition, he continues to offer a regular, substantive and intellectual challenge to the Executives on our strategy for, and management of, the business.

Given that all of Sir Roderic's former non-executive colleagues retired following the approval of the 2014 Annual Report, his prior knowledge of the Group was considered critical for both continuity and a smooth transition to the "new" Board.

Taking these factors into account along with the fact that he is well-known to many of our major shareholders, the Board was pleased to appoint Sir Roderic as Senior Independent Director with effect from 1 November 2015.

All eligible Directors will stand for election or re-appointment at the forthcoming Annual General Meeting (AGM). The Board considers that all of the Non-Executive Directors are independent.

Shareholders may 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 role as Chairman is clearly separated from that of the Chief Executive Officer. Further details of these roles are provided on page 80 to 81 of this Report.

**Board evaluation**
The Board is satisfied that each of the Directors continues to be effective, demonstrates commitment to the role and that their election or re-appointment is in the Company's best interest. However, as the "new" Board has only been in operation since October 2015, we did not consider that a Board evaluation was appropriate, given that it was unlikely to be either meaningful or provide any benefit. This will be carried out in the latter part of 2016, allowing sufficient time for the "new" Board to become fully established. The results of this evaluation will be detailed in the 2016 Annual Report.

**Annual General Meeting (AGM)**
The AGM is recognised as an opportunity for all shareholders to engage with the Board and I look forward to welcoming shareholders to the next meeting, which is to be held on 28 June 2016.

**Peter Hambro**
Chairman
28 April 2016

# Corporate governance framework

The following sections of this report detail the work and operation of the Board and the corporate governance framework within which the Company operates, including further reporting required under the Code, the UK Listing Rules and the Disclosure & Transparency Rules, all of which the Company is subject to.

**Application of the UK Corporate Governance Code**

The latest revision of the UK Corporate Governance Code (the 'Code') was published by the Financial Reporting Council in September 2014, together with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The 2014 amendments are applicable to reporting periods beginning on or after 1 October 2014.

Throughout the accounting period the Company has complied with the requirements of the Code, including the 2014 amendments, other than in respect of the following.

Provision A.4.1 of the Code requires that the Board should appoint one of the independent non-executive directors to be the senior independent director. Following the retirement of Dr Graham Birch as Senior Independent Director and as a Director of the Company on 30 April 2015 and until the appointment of Mr Alexander Green on 27 August 2015, the Board only had two independent non-executive directors and it was not deemed necessary to appoint one as a senior independent director given the transition to a "new" Board. Following the constitution of the "new" Board in October 2015, Sir Roderic Lyne was appointed as Senior Independent Director with effect from 1 November 2015.

Provision B.1.1. of the Code requires that the Board should state its reasons for determining that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director has served on the board for more than nine years from the date of their first election.

Sir Roderic Lyne has served on the Board of the Company for a continuous period of more than nine years including his service as a Director of Aricom plc. However, as explained in the Chairman's introduction, on page 82, the Board considers Sir Roderic to be independent.

In addition, Mr Jenkins, who was identified by external consultants during 2014 as an excellent candidate for the position of a Non-Executive Director, provided assistance to the Company, principally to the Audit Committee and the Non-Executive Directors, during the period of the Refinancing, and prior to his appointment. The Board does not deem that this constituted a material business relationship with the Company. Accordingly, the Board considers that Mr Jenkins was independent at the date of his appointment and continues to be an independent director of the Company.

In accordance with the requirement of the Code in respect of smaller companies, the Board comprised of at least two independent directors at all times during 2015.

Provision B.6 of the Code states that the Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees. As stated in the Chairman's introduction on page 4, a Board evaluation was not undertaken during 2015 given that Messrs Jenkins, Green and Vickerman were not appointed as Directors until 30 April 2015, 27 August 2015 and 22 October 2015 respectively.

**The Board**

**The role of the Board:**

The Board is responsible to shareholders for the long-term sustainable success of the Company. The Group's near-term, medium-term and long-term strategy, set by the Board, are fully described in the Strategic Report on page 15. 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.

**Board composition and roles**

**The Chairman and the Chief Executive Officer:**

*Mr Peter Hambro and Dr Pavel Maslovskiy*

Whilst retaining a close working relationship, the Chairman and Chief Executive Officer have clearly defined and separated responsibilities.

The Chairman provides the 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.

Supported by the Chief Financial Officer and the Executive Committee, the Chief Executive Officer has day-to-day responsibility for the Group's operations within Russia, for developing the Group's objectives and strategy and for the successful achievement of objectives and execution of strategy, following approval by the Board.

**Chief Financial Officer:**

*Mr Andrey Maruta*

The Chief Financial Officer supports the Chief Executive Officer in implementing the Group's strategy, in addition to his specific responsibilities as CFO.

**Non-Executive Directors:**

*Mr Robert Jenkins*
*Mr Alexander Green*
*Mr Andrew Vickerman*

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. They bring to the Board a diverse range of business and financial expertise, which complements the experiences of the Executive Directors. The Non-Executive Directors meet periodically with the Chairman without the Executives being present.

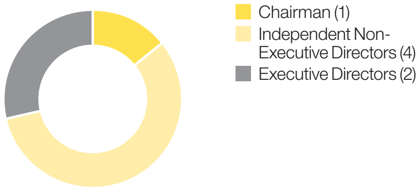
**Senior Independent Director:**

*Sir Roderic Lyne*

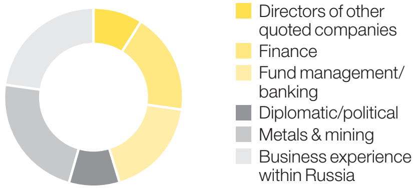
The Senior Independent Director provides an independent point of contact to shareholders on Board matters or any matters of concern that shareholders have been unable to resolve through the normal channels of chairman, chief executive or other executive director or for which such contact is inappropriate.

As the Senior Independent Director during the Refinancing period, Dr Graham Birch held a number of meetings with the Non-Executive Directors and the Company's advisors to consider specific aspects of the Refinancing, including the participation of Mr Hambro and Dr Maslovskiy in the underwriting of the Rights Issue, without the Chairman or the Executive Directors being present. Dr Birch retired as a Director and as the Company's Senior Independent Director on 30 April 2015.

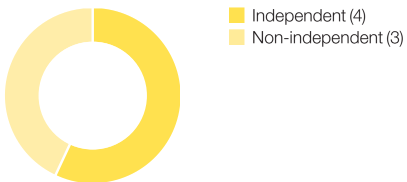
### Board balance of Directors




### Business experience

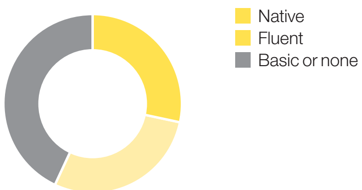



### Independence

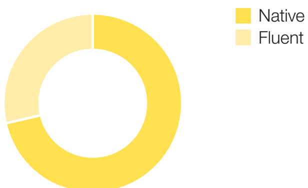



### Nationality


### Language skills – Russian




### Language skills – English




### Effectiveness and accountability of the Board

The graphs on this page illustrate the collective business experience of the Directors outside that acquired at Petropavlovsk as at the date of this report, Director Independence as determined by the Board, nationality and language skills.

Detailed knowledge of the gold mining industry, Russia and the Group's operations are considered critical to the Board's ability to lead the Company

### Board activities during the year

In 2015, the Board met on six scheduled occasions, with a number of additional meetings held during the year principally due to the Refinancing and consideration of matters relating to IRC. Many of these additional meetings were called at short notice and were accommodated as conference calls. Further Board meetings were held to deal with matters of a routine or administrative nature.

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

- Refinancing including:
  - Issuance of a £100m convertible bond
  - Approval of the Prospectus for a £155.1million Rights Issue
  - Repayment of the outstanding US$310.5 million 4% Convertible Bonds due 2015
- The disposal of the Group's 95.7% interest in OJSC ZDP Koboldo, a non-strategic alluvial asset, which was announced on 20 April 2015
- The classification of IRC as an asset 'held for sale' and its change to an associate of the Company with effect from 7 August 2015
- The composition of the Board, including the appointment of three new Non-Executive Directors
- The feasibility of the proposed underground mining project
- The proposed recommencement of the construction of the POX plant, including initial consideration of a potential joint venture arrangement
- A review of the Company's Committee structure.

### 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 pages 86 to 87 for further details of these Committees.

### Director's induction and professional development, information flow and professional advice

#### Induction and professional development

Each Director has an induction programme upon appointment. They are expected to update their skills and knowledge and develop the familiarity with the Group's operations needed to fulfil their roles on 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. Mr Jenkins visited the Group's operations in the Far East Amur Region of Russia in October 2015, as part of his induction. This included a visit to the Group's laboratories, the POX Hub and the pilot POX plant in Blagoveshchensk. He also met with operational management, including Mr Nikolai Vlasov, the Group's Chief Geologist. All Directors have visited the Group's mines with the exception of Messrs Green and Vickerman, who were recently appointed to the Board. However, a Board visit to the Group's mining operations is scheduled for all of the Directors in July 2016.

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.

**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 team. 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.

**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.

**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 full and comprehensive information is available to all shareholders. Shareholders are welcome to contact the Company's Investor Relations department during the year with any specific queries regarding the Company. 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 presentations to, and meetings with, institutional investors and sell-side analysts as well as potential shareholders in the UK, Russia and Europe to communicate the Group's strategy, operational and financial performance and educate potential investors on the areas in which the Group operates. During the year, the Company welcomed several new major shareholders to the share register as a result of the Refinancing, and the Executive team undertook a number of 'roadshows' in which the new shareholders participated. The Refinancing was approved by shareholders at a general meeting held on 26 February 2015 and the Company is particularly grateful to individual shareholders for voting to approve this transaction.

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.

Individual shareholders are equally as important to the Company as its institutional shareholders. 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 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 28 June 2016. Mr Robert Jenkins, Chairman of the Audit Committee and Sir Roderic Lyne, Chairman of the Remuneration and the HSE Committees will be available, at the forthcoming AGM, to answer any questions relating to those committees. The Company Chairman will be available to answer any questions relating to the work of the Nomination Committee.

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.

**Annual re-election of Directors**
In accordance with the recommendations of the Code, all eligible Directors will be offering themselves for re-election or appointment at the AGM on 28 June 2016. 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 appoint or re-elect all of the eligible Directors of the Company and the reasons for this recommendation will be set out in the Appendix to the Notice of the Annual General Meeting.

**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 86.

## The Board and its Committees

**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 (including anti-bribery matters) 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 Audit Report on the interim review 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 89 to 94 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 95 to 110 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 Board appointment is made.

The Report of the Nomination Committee is on page 88 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 pages 24 to 25.

### Executive Committee

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

Committee membership is detailed below.

### Strategic Committee

- Responsible for the evaluation of projects from a strategic perspective
- Reviews the Group's exploration assets as part of the Group's full year and interim results procedure.

The Strategic Committee is chaired by Dr Alya Samokhvalova, Strategic Director.

*The Company Secretary acts as secretary to the Audit, Remuneration, Nomination, HSE, 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 meeting.*

*Members of the HSE Committee are:*
*Sir Roderic Lyne, Chairman*
*Dr Pavel Maslovskiy, Chief Executive Officer who may rotate attendance with*
*Mr Dmitry Chekashkin, Chief Operating Officer*
*Mr Alexander Green, Non-Executive Director*
*Mr Andrew Vickerman, Non-Executive Director*
*Dr Alya Samokhvalova, Strategic Director and Group Head of External Communications*

*Members of the Executive Committee are:*
*The Chairman and Executive Directors*
*Mr Valery Alexseev, Group Head of Construction and Engineering*
*Mr Dmitry Chekashkin, Chief Operating Officer*
*Mr Sergey Ermolenko, General Director Management Company Petropavlovsk*
*Mr Alexey Maslovskiy, Business Development Manager*
*Dr Alya Samokhvalova, Strategic Director and Group Head of External Communications*
*Mrs Anna-Karolina Subczynska, Group Head of Legal Affairs*
*Mr Andrei Tarasov, Deputy General Director Management Company Petropavlovsk*

## Meetings of the Board, Board Committees and attendance

| | Board | | Audit | | Remuneration | | Nomination | | HSE | | Risk[10] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Peter Hambro | C | 6/6 | – | 4 | – | 2/2 | C | 3/3 | – | 4 | – | 1 |
| Pavel Maslovskiy | M | 6/6 | – | 2 | – | – | – | – | – | 2 | – | 1 |
| Graham Birch[3,6] | M | 2/2 | M | 1/1 | – | – | M | 1/1 | – | – | M | 1/1 |
| Dmitry Chekashkin[4] | M | 2/2 | – | – | – | – | – | – | – | – | – | – |
| Sir Malcolm Field[3,6,7] | M | 2/2 | C | 1/1 | M | 1/1 | M | 1/1 | – | – | – | – |
| Alexander Green[5,6,7,8] | M | 2/2 | M | 2/2 | M | 1/1 | – | – | M | 2/2 | – | – |
| Lord Charles Guthrie[3,6] | M | 2/2 | – | – | M | 1/1 | – | – | M | 1/1 | C | 1/1 |
| David Humphreys[3,6,9] | M | 0/2 | – | – | M | 1/1 | – | – | M | 0/1 | M | 0/1 |
| Robert Jenkins[5,6,7] | M | 5/5 | M/C | 4/4 | – | – | M | 2/2 | M | 2/2 | – | – |
| Sir Roderic Lyne[6] | M | 6/6 | M | 1/1 | C | 2/2 | M | 2/2 | C | 4/4 | M | 1/1 |
| Andrey Maruta | M | 6/6 | – | 4 | – | – | – | – | – | 1 | – | 1/1 |
| Charles McVeigh[3,6] | M | 2/2 | M | 1/1 | – | – | M | 1/1 | – | – | – | – |
| Alya Samokhvalova[4] | M | 2/2 | – | – | – | – | – | – | M | 4/4 | – | 1 |
| Martin Smith[3] | M | 2/2 | – | 1 | – | – | – | – | M | 1/1 | M | 1/1 |
| Andrew Vickerman[5,6,7,8] | M | 2/2 | M | 2/2 | M | 1/1 | – | – | M | 2/2 | – | – |

*Key: C= Chairman, M= Member*

1 *Additional Board meetings were held during the year, principally relating to the Refinancing and matters relating to IRC. Further Board and Board Committee meetings were held to deal with matters of a routine or administrative nature.*

2 *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.*

3 *Dr Graham Birch, Sir Malcolm Field, Lord Charles Guthrie, Dr David Humphreys, Mr Charles McVeigh and Mr Martin Smith retired as Directors of the Company on 30 April 2015 following the release of the Company's full year results for the year ended 31 December 2014 and the successful conclusion of the Refinancing.*

4 *Mr Dmitry Chekashkin and Dr Alya Samokhvalova resigned as Directors of the Company on 30 April 2015. Mr Chekashkin and Dr Samokhvalova are still employed by the Group as Chief Operating Officer and Strategic Director/Group Head of External Communications respectively. They are both members of the Executive Committee. Dr Samokhvalova is also a member of the HSE Committee.*

5 *Mr Robert Jenkins, Mr Alexander Green and Mr Andrew Vickerman were appointed as Non-Executive Directors of the Company with effect from 30 April 2015, 27 August 2015 and 22 October 2015 respectively.*

6 *Director who the Board has determined to be independent.*

7 *Sir Malcolm Field was Chairman of the Audit Committee until 30 April 2015, when he retired as a Director of the Company, at which time Mr Robert Jenkins was appointed as the Audit Committee Chairman. Sir Roderic Lyne was a member of the Audit Committee from 30 April 2015 until 22 October 2015, at which date Mr Alexander Green and Mr Andrew Vickerman were appointed as members of the Committee.*

8 *Mr Alexander Green and Mr Andrew Vickerman were appointed as members of the HSE Committee with effect from 22 October 2015.*

9 *Dr David Humphreys was unable to attend two Boards, one HSE Committee and one Risk Committee meeting during the year due to a previous overseas commitment.*

10 *Due to the reduced size of the Board it was agreed that, with the exception of financial risks, which will continue to be reviewed and monitored by the Audit Committee, the risk review should be a duty of the full Board and not delegated to a Committee. The Audit Committee reports its findings on its review of financial risks to the Board. The last meeting of the Risk Committee was held on 22 April 2015.*

# Nomination Committee Report

## Letter from the Nomination Committee Chairman

### Dear shareholder

The composition of the Board and indeed the Nomination Committee (the "Committee") changed significantly during 2015. Consequently it has been a year of much activity for the Committee, which I continue to chair.

**Membership of the Committee**
Sir Malcolm Field, Dr Graham Birch and Mr Charles McVeigh retired as Directors and members of the Committee on 30 April 2015. I thank them for their valuable support and advice during their tenure on the Committee. I was pleased to welcome Sir Roderic Lyne and Mr Robert Jenkins, both independent Non-Executive Directors, as members of the Committee with effect from 1 May 2015. The Committee met four times during the year, with regular contact between meetings to progress the changes to the Board's composition.

**Board changes and composition**
Given the reduced size of the Company's market capitalisation relative to its previous levels, and as advised to shareholders at the time of the Refinancing, the size of the Board has reduced from twelve to seven members. Details of these changes, and of the revised Board, which now consists of myself as Chairman, two Executive Directors and four independent Non-Executive Directors, are provided in the Corporate Governance Report on page 82. The appointment of Mr Robert Jenkins as a Non-Executive Director on 30 April 2015, which was approved by shareholders at the Company's 2015 Annual General Meeting (AGM), is fully detailed in the 2014 Nomination Committee report. Consequently this report focuses on the process undertaken by the Committee during the year to appoint two additional Non-Executive Directors to the Board, with the requisite skillset to ensure an appropriate mix and diversity of experience.

The appointment process was managed by external consultants who identified suitable candidates for these roles, based on a detailed brief provided by the Committee specifying the skills and experience required. In addition, and as previously advised, representatives of the former holders of the Group's 4% Convertible Bonds due 2015 (the "Bondholders' Representatives") were given the opportunity to propose individuals to be included in this process. A long-list of names was proposed by the external consultants.

A short-list of candidates was then developed and the best candidates for the role were interviewed by myself, Dr Maslovskiy, Group Chief Executive and Sir Roderic Lyne. The Bondholders' Representatives also had the opportunity to meet with these candidates.

The process resulted in the appointment of Mr Alexander Green and Mr Andrew Vickerman as Non-Executive Directors, who I was pleased to welcome to the Board on 27 August 2015 and 22 October 2015 respectively.

Alexander has two decades of experience in the resources industry and has a wealth of experience including risk management, development of business strategy and corporate governance. Whilst Andrew brings a wealth of international experience across finance, operations and external affairs in addition to his extensive mining industry experience. Full biographical details of Alexander and Andrew together with those of our other Directors are provided on pages 80 and 81 of this Report.

Given the reduced size of the Board, Alexander and Andrew met with the majority of the Directors during the selection process, following which their appointment, supported by the Bondholders' Representatives, was formally recommended to the Board. Both Alexander and Andrew meet the independence criteria of the UK Corporate Governance Code and neither has any additional responsibility to the former Bondholders, in their capacity as new shareholders, beyond the duty that they owe to all shareholders.

Following these appointments, the Board believes that the refreshed Board collectively has the necessary skills and experience to implement the next stage of the Group's strategy. I am pleased to confirm that the new Board is working well.

**Diversity statement**
It is disappointing that, following the restructuring of the Board and resignation of Dr Alya Samokhvalova as a Director on 30 April 2015, the Company no longer has any women on the Board. However, Dr Samokhvalova remains with the Company in her joint role as Strategic Director and Group Head of External Communications. Alya has retained her membership of the Executive Committee and she remains the most senior woman of Executive management. She continues to attend Board meetings, at my request, to report to the Board on strategic and investor relations matters. Mrs Anna-Karolina Subczynska, Group Head of Legal Affairs is also on the Group's Executive Committee and attends Board meetings at my request. Ms Amanda Whalley is the Company Secretary and in this capacity provides advice to the Board on corporate governance matters. The Group has a strong representation of women in professional roles at our offices in Moscow, London and Blagoveshensk.

Whilst mindful of the value of gender diversity, the Committee's principal goal during our recent search for new Non-Executive Directors was to appoint candidates with the correct skills and experience to complement our existing Directors, in order that the Board has the right balance to take the Group forward into the next stage of its strategy. The Committee believes that this is in the best interest of the Company and its shareholders. Consequently the Board did not set, and does not intend to set, a specific target for the number of female members of the Board as it wishes to continue to appoint the best candidate available to it for any particular role.

Details of the other activities of the Committee during the year are provided below.

I will be available at the forthcoming Annual General Meeting to answer any questions that shareholders may wish to ask on the work of the Committee.

**Peter Hambro**
Chairman, Nomination Committee
28 April 2016

**Additional activities during the year:**

- Evaluation of each of the eligible Directors in respect of their re-election and subsequent recommendation to the Board
- Approval of the 2014 Nomination Committee Report.

# Audit Committee Report

## Letter from the Audit Committee Chairman

**Dear shareholder**

I am pleased to introduce this, my first report as Audit Committee Chairman.

The change in the composition of the Board, following the successful completion of the Refinancing in March 2015, resulted in a number of changes to the membership of the Committee, which are detailed below, including my appointment as Committee Chairman on 30 April 2015 following the retirement of Sir Malcolm Field. I would like to thank Sir Malcolm for the tireless way he led the Committee during the Refinancing.

I was pleased to welcome Alexander Green and Andrew Vickerman to the Committee in October 2015. They both bring valuable expertise in the areas of financial reporting and risk management. As part of their induction both Alexander and Andrew had a detailed briefing with Andrey Maruta, Chief Financial Officer to ensure that they were quickly brought up-to-speed on matters within the Committee's remit. We have met with both the audit partner on behalf of Deloitte LLP ("Deloitte") and also VenmynDeloitte ("Venmyn"), who review operational factors and contribute to the overall audit process. These meetings have assisted in improving the Committee's understanding in this critical area.
The Committee remains a fully independent body, comprising only of independent Non-Executive Directors. The Committee continues to challenge and engage with the Executive, Internal Audit and the external auditor and, indeed, as a result of the "new" Committee membership, a different perspective has been added to the Committee's deliberations.

Not only has there been change to its membership but also to the responsibilities of the Committee, which have been expanded to include the Committee's role in reviewing and challenging the Company's longer term viability statement and providing relevant advice to the Board thereon. This has been an important additional new area of focus for the Committee.

Notwithstanding the success of the Group's Refinancing and the US$50m rights issue by IRC in August 2015, both of which improved the Group's liquidity, 2015 remained a challenging year for the Group, as it has been for many of our mining peers. As a consequence, the most significant judgement for the Committee in respect of the 2015 financial statements related to the assessment of the "going concern" basis of accounting and details of the Committee's consideration of this, together with judgements on other significant matters are provided on pages 92 to 93.

During the year the Committee continued to devote significant time to reviewing the Group's financial risks, the integrity of the Group's financial reporting and the effectiveness of both internal and external audit. The Committee continues to assist the Board in its review of the Group's internal control systems and oversees the reporting process in order to ensure that the information provided to shareholders in this Annual Report taken as a whole is '*fair, balanced and understandable*' and allows assessment of the Company's performance, business model and strategy.

A more detailed review of the Committee's work during the year is provided in this Report. I hope that you will find this informative.

**Robert Jenkins**
Audit Committee Chairman
28 April 2016

**Committee membership**
Sir Malcolm Field, Dr Graham Birch and Mr Charles McVeigh retired as Directors and members of the Committee with effect from 30 April 2015.

Mr Robert Jenkins was appointed as a Non-Executive Director and as Committee Chairman on 30 April 2015, at which time Sir Roderic Lyne was appointed as a member of the Committee.

Messrs Alexander Green and Andrew Vickerman were both appointed as a member of the Committee on 22 October 2015, following their appointment as Non-Executive Directors on 27 August 2015 and 22 October 2015 respectively and Sir Roderic Lyne resigned from the Committee on this date. All members of the Committee are independent.

**Governance**
Prior to his retirement, Sir Malcolm Field was considered by the Company as having the requisite recent and relevant financial experience required by the provision of the 2014 revision of the UK Corporate Governance Code (the "Code") due to his past employment in finance or comparable experience in corporate activities, as was Mr Charles McVeigh.

Mr Jenkins was appointed as Audit Committee Chairman on 30 April 2015. He is considered by the Board as having the requisite and relevant financial experience due to his profession as a Chartered Accountant and his previous roles as Chief Financial Officer of two Russia focussed natural resource companies, including a UK AIM listed mining exploration company. Mr Jenkins is also the Senior Independent Director and Audit Committee Chairman of Ruspetro plc, an independent oil and gas production company, listed on the London Stock Exchange.

The Company's Chairman, the Chief Executive Officer, the Chief Financial Officer, the Internal Auditor and Group Head of Corporate Reporting and representatives of the external auditors are invited to attend all Committee meetings, with Deloitte LLP attending all Committee meetings in 2015. In addition, the Committee Chairman meets on a regular basis with the Company Chairman and the Chief Financial Officer to discuss any issues and with the lead partner of the external auditor on a regular basis and prior to each Committee meeting.

Mr Timothy Biggs, the leader of Deloitte's UK metals and mining sector, was appointed as lead audit partner in 2014, following the completion of the audit for the year ended 31 December 2013.

The Committee met on four occasions during the financial year to align with the Group's financial reporting calendar.

**Summary of the Committee's responsibilities**
The Committee's terms of reference set out its main responsibilities and are available to view on the website. The Committee is responsible for:

- The integrity of the Group's financial statements and the significant reporting judgements contained in them
- The appropriateness of the Group's relationship with the external auditors, including auditor independence, fees and provision of non-audit services
- The effectiveness of the external audit process, making recommendations to the Board on the appointment of the external auditors
- The effectiveness of the Group's internal control and financial and tax risk management systems
- Where requested by the Board, providing advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate
- Advising the Board on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

In carrying out its responsibilities, the Committee has full authority to investigate all matters within its terms of reference. Accordingly, the Committee may:

- Obtain independent professional advice in the satisfaction of its duties at the cost of the Company
- Have direct access to the resources of the Group as it may reasonably require including the external and internal auditors.

**Activity during the year**
The following matters were amongst those considered by the Committee during the year:

*Financial statements and reports*
- Reviewed the 2014 Annual Report and Accounts and the six months' Half Year report ended 30 June 2015 before recommending their adoption by the Board. As part of these reviews the Committee received reports from the external auditor, reviewed accounting policies, estimates and judgements applied by management in preparing the relevant statements and the transparency and clarity of disclosure contained within them
- Considered whether the 2014 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and reported to the Board on its conclusion.

*Risk management*
- Considered the output from the Group's financial and tax review process undertaken to identify, evaluate and mitigate risks, advising the Board of changes in these risks as appropriate. See pages 26 to 39 of the Risks to Our Performance section which describes the Group's principal financial risks during the year and actions taken to mitigate against them.

*Internal audit*
- Evaluated the effectiveness and the scope of work to be undertaken by Group Internal Audit during 2015, which included audits to be performed at the Group's mining operations and the Group's offices in both Moscow and Blagoveshchensk. The Group Head of Internal Audit presented his findings to the Audit Committee during the year in London from various assignments internal audit had been requested to undertake by the Audit Committee. Audits undertaken during the year, amongst others, were audits of the Group's procurement and supply process, fixed assets, expense accounting and audits undertaken of the group service companies. In addition internal audit conducted a follow up of the working capital management audit carried out in 2014
- Reviewed management responses to audit reports issued during the year.

*External auditor and non-audit work*
- Reviewed, considered and agreed the scope and methodology of the audit work to be undertaken by the external auditor
- Evaluated the independence and objectivity of the external auditor
- Agreed the terms of engagement for the audit of the 2015 financial statements.

*Independent experts*
- In April 2015, the Committee met with Mr Martin Smith, Deputy Chief Executive, who advised the committee on the Reserves & Resources review undertaken by Wardell Armstrong International, independent mining experts, in early 2015
- In February 2016, the Committee met with the mining experts used by Deloitte LLP as part of their overall audit process. Venmyn Deloitte summarised the work that they undertake at the Group's operations on behalf of Deloitte LLP.

*Governance*
- The Committee reviewed proposed new Terms of Reference for the Committee, following changes in the Code, and recommended their adoption to the Board.

Subsequent to 2015, the Committee has reviewed, in particular, the following matters in relation to the 2015 financial statements:

- The going concern assumption
- The carrying value of the Group's mining assets including POX
- The carrying value of the Group's Exploration and Evaluation assets
- The carrying value of the Group's ore stockpiles, deferred stripping and gold-in-circuit.

The Committee has also advised the Board on:

- whether the 2015 Annual Report and Accounts taken as a whole is fair, balanced and understandable and the Directors' statement in this respect is set out on page 118
- the viability statement of the Company required in accordance with provision C.2.2 of the Code.

**Significant issues considered by the Committee in the context of the 2015 financial statements:**

The Committee identified the issues below as significant in the context of the 2015 financial statements. The Committee considers these areas to be significant taking into account the level of materiality and the degree of judgement exercised by management. The Committee has debated these issues in detail to ensure that the approaches taken were appropriate.

| Issue | Committee action | Conclusion |
| --- | --- | --- |
| **The going concern assumption**<br>The key judgement for the Committee for the 2015 financial statements related to the appropriateness of the basis of accounting.<br><br>The successful completion of the Refinancing and completion of a c.US$50 million open offer by IRC in August 2015 improved the Group's financial position. In addition on 7 August 2015, following its open offer, IRC became an associate of the Company. However, the Company continues to provide a guarantee over IRC's debt with ICBC. The outstanding loan principal was US$276.25 million as at 31 December 2015.<br><br>As at 31 December 2015, the Group had sufficient liquidity headroom and complied with related financial covenants in relation to its bank facilities for the period of 12 months from the date of approval of the 2015 Annual Report and Accounts.<br><br>However, the Group's projections demonstrate that although the Group expects to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule on 20 June 2016 and a breach of certain financial covenants, being leverage and interest service ratios, within the bank facilities as at the next measurement date, being 30 June 2016, is likely to arise.<br><br>In addition, the assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. | The Committee has addressed this matter through:<br>– Receiving regular updates from management on negotiations with VTB and Sberbank (the "Senior Lenders"), including a summary of the correspondence received from the Senior Lenders on this matter.<br><br>– Receiving a paper from management on the going concern assessment, challenging the key assumptions used, in particular in relation to production, gold price and the Russian rouble US dollar exchange rate<br><br>– Considering mitigating actions proposed by management<br><br>– Noting that on 19 April 2016, ICBC granted waivers in respect of IRC's project finance facility with ICBC, including obligations of IRC to maintain certain cash deposits with ICBC, and the obligations of IRC and Petropavlovsk to comply with certain financial covenants until and inclusive of 31 December 2017. The waiver from the obligations of IRC and Petropavlovsk to comply with certain financial covenants is conditional upon Petropavlovsk obtaining covenant waivers from the Senior Lenders. | The Committee has advised the Board that given the current status of negotiations with the Senior Lenders and ICBC and other mitigating actions that can be taken by the Group, it is reasonable for the Directors to expect that the Group will:<br>(i) be able to obtain the waivers or relaxation of covenants from the Senior Lenders prior to 30 June 2016;<br>(ii) be able to extend the maturity of its debt finance in order to enable the Group to meet its commitments under its loan facilities.<br><br>In addition, as detailed in the Strategic Report, the Group has entered into a joint venture arrangement with GMD Gold to complete the POX Hub which will improve the forecast liquidity position of the Group. This transaction is subject to shareholder approval.<br><br>The Committee has a reasonable expectation that these actions will resolve the material uncertainty regarding the Group's ability to renegotiate its banking covenants and repayment schedule ahead of the next measurement date and as a conclusion the Group will have adequate resources to continue in operational existence for the foreseeable future and accordingly, the going concern basis is the appropriate basis of preparation for the 2015 financial statements.<br><br>Shareholders will note the "emphasis of matter" due to material uncertainties that exist at the date of signing of the financial statements contained within Deloitte LLP's audit opinion. |

| Issue | Committee action | Conclusion |
|---|---|---|
| **Carrying value of mining assets including POX**<br>(see note 6 to the financial statements)<br><br>In 2014 the inclusion of GKZ reserves together with the depreciation of the Russian rouble resulted in an increase of the Net Present Value of several projects. This led to the reversal of US$29m of previously recognised impairments at Albyn as at 31 December 2014. No further impairments or reversals of impairments were recognised at 30 June 2015.<br><br>However, the carrying value of the Group's mining assets remains particularly sensitive to the forecast long-term gold price and the Russian rouble US dollar exchange rate, the sustainability and success of the cost-cutting program and the completion of the POX plant. Consequently, the assessment of the carrying value of the Group's mining assets, including POX, requires significant judgement. | The Committee has addressed this issue through:<br>– Receiving reports from management outlining the basis for the assumptions used, including assumptions on gold price, the discount rate used for the projects and the Russian rouble US dollar exchange rate, and understanding and challenging these assumptions. 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<br>– Noting the report issued by Wardell Armstrong International, mining experts, to management in April 2016, following their review of Mineral Resources and Ore Reserves for the Group's assets<br>– Discussions were held with Venmyn, mining experts, regarding their report. Venmyn who were engaged by Deloitte, assisted Deloitte, in their assessment of this issue. As part of their review Venmyn again visited the Group's principal mines. Venmyn's report concluded that the POX assets have been well-maintained and are in a suitable condition to recommence the construction of POX in accordance with the Group's mining plan<br>– Discussing with the external auditor their view on the impairment testing procedure including the key assumptions used by management. | Taking the above into account, the Committee is satisfied with the thoroughness of the approach and judgements taken.<br><br>The review of the carrying value of mining assets including POX did not result in any impairment. |
| **Carrying value of Evaluation and Exploration assets (E&E) assets**<br>(see notes 6 and 12 to the financial statements)<br><br>The judgements in relation to the carrying value and potential impairment of the Group's E&E assets 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 assessment of each asset's future prospectivity requires significant judgement.<br><br>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 has addressed this issue through<br>– Considering the exercise undertaken by the Strategic Committee which has been subject to Executive Committee review<br>– Enquiring of management and challenging their assumptions used, including the long term gold price assumptions for Ore Reserves and Mineral Resources<br>– Discussing with the external auditor their work in respect of the impairment review of the Group's E&E assets and obtaining their view in relation to management's assessment. | Taking these matters into account, the Committee is satisfied with the thoroughness of the approach and judgements taken.<br><br>The review of the carrying value of exploration and evaluation assets undertaken by management has resulted in an impairment of c.US$37.4m for the year ending 31 December 2015 (2014: US$22) in the carrying value of the Group's E&E assets. |

# Audit Committee Report continued

### External auditor
The Committee has evaluated the effectiveness of the external auditor and as part of this assessment, has considered:

- Deloitte's fulfilment of the agreed audit plan for the year ending 31 December 2014, the quality and robustness of their audit, identification of and response to areas of risk and the experience and expertise of the audit team, including the lead audit partner
- Deloitte's proposed audit fee for the 2015 interim and year-end audits and after consideration recommending these to the Board for approval
- The non-audit fees payable to Deloitte, having regard to the policy on the provision of non-audit services
- Deloitte's publication entitled 'Briefing on audit matters' published in June 2015 which explains the key concepts behind the Deloitte Audit methodology including audit objectives and materiality
- Deloitte's "2015 Audit Transparency Report' in respect of the year ended 31 May 2015. 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
- The confirmation from Deloitte that they remain independent and objective within the context of applicable professional standards
- The deep knowledge of the Company that enhances Deloitte's ability to perform as external auditor and the proven stability that is gained from their continued engagement.

As a result of the above actions, the Committee determined that Deloitte remains effective in their role as external auditor. The Committee has therefore recommended to the Board that Deloitte be appointed as external auditor for a further year and a resolution will be proposed to this effect at the 2015 Annual General Meeting.

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, particularly given the change of lead audit partner in 2014. 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.

*Non-audit services*
Non-audit service provided by Deloitte were in line with the Company's policy on the provision of non-audit services approved by the Committee. A copy of this policy is available on the Company's website or can be obtained from the Company Secretary. Deloitte Hong Kong is the auditor of IRC Ltd, an associate of the Group.

A breakdown of non-audit fees paid in 2015 is set out in note 7 on page 150 of this Report.

### 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 HSE and Executive Committees in addition to the Audit Committee, details of which are as follows.

- The Board (which receives advice from the Audit, HSE and Executive 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 2015 and up to the date of this report. The Committee has also considered and reviewed the Group's financial risks and the mitigating action being taken to address these and has reported its findings to the Board. 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, the Company 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. IRC ceased to be a subsidiary of the Company and became an associate on 7 August 2015.

### Internal controls system
Some key features of the internal controls system, not detailed above, 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 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
- 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.

### 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. Following the reduction in the size of the Board from twelve to seven Directors it was agreed that, with the exception of financial risks, review of risks should be a duty of the full Board and should not be delegated to a committee. The last meeting of the Risk Committee was held on 22 April 2015. The Audit Committee retains responsibility for reviewing financial risks and reporting its findings and recommendations to the Board. The Risks to Our Performance section, which has been reviewed by the Audit Committee, summarises the risk management framework together with details of the principal risks of the Group and is on pages 23 to 39 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.

# Directors' Remuneration Report

## Annual statement from the Chairman of the Remuneration Committee (the "Committee")

**Remuneration highlights**
The Committee continued to align the implementation of its policy with the Group's focus on financial discipline within the lower gold price environment, and decided as follows:

- No salary increases for the Chairman, Executive Directors and members of the Executive Committee in 2016
- Basic Non-Executive Directors' fees reduced by c.18.5% with effect from 1 May 2015, following three years of no increases
- Approving the Chairman's voluntary waiver of his 2015 bonus payment and his recommendation that no bonus be paid to the Executive Directors or members of the Executive Committee for 2015
- No Long-Term Incentive Awards granted during 2015, the fourth year in succession and no Award proposed in 2016
- Committee's review of the Company's remuneration policy undertaken; no changes proposed at the current time.

### Dear shareholder

**Introduction**
On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2015.

Following the successful conclusion of the Refinancing and, as previously advised to our shareholders, Sir Malcolm Field, Lord Charles Guthrie and Dr David Humphreys, my colleagues on the Committee, retired as Directors and members of the Committee on 30 April 2015. The "newly" constituted Committee comprises three independent Directors; myself as Chairman and Messrs Alexander Green and Andrew Vickerman.

The Committee continues to recognise the Group's need for strong financial discipline and for a focus on optimising cash flows, which was emphasised during the Refinancing, and this has been reflected in our decisions throughout the year. We determined that, with the exception of the incoming Chief Executive Officer and the reinstatement of the Chairman's salary to his 2012 level, 2015 salary levels should be maintained for the Executive Directors and members of the Executive Committee. In addition, no salary increases have been awarded in 2016. For the majority of our Executive team this is the fourth year in succession in which they have received no increase. The Non-Executive Directors proposed to the Company Chairman a substantial reduction in their fees with effect from 1 May 2015, which was accepted by the Board. In summary, there have been no substantial changes to the remuneration of Directors during 2015.

The Board was reduced from twelve to seven members following the Refinancing with no termination payment made to any retiring Director. The reduction in the size of the Board together with the c.18.5% decrease in Non-Executive Directors' fees has resulted in a considerable annual saving for the Company of c.£627,000.

**2015 annual bonus**
The Committee, together with the Company Chairman, ensures that the performance criteria for the annual bonus plan are strongly linked to the Group's strategy and budget. For 2015, bonus targets related to production, reduction in both net debt and average total cash costs, and the success of our exploration programme. The revised strategy during the year, to focus on the mining and production of ounces with the highest possible profit margin, directly impacted on the Executives' ability to achieve the Group's production target and, as a consequence, the average total cash costs target and no bonus is therefore justified in respect of these objectives. Although the Group's total net debt has been significantly reduced, the challenging bonus target was not met. The final bonus objective, which related to the Group's JORC Reserves and Resources, was achieved, justifying a bonus of 30% of annual salary for the Company Chairman and the Executive team. However, given that the Group continues to operate within a very difficult environment, the Chairman did not consider it appropriate for the Executive team to accept the bonus. The Committee appreciated the reasons for the Chairman's recommendation and decided that no bonus would be paid for 2015. Shareholders may wish to note that this is the second year in succession that the Chairman has recommended that both he and the Executive team waive payment of their bonus. The Committee, whilst fully supportive of this important gesture, acknowledges the commitment of the Executives and their exceptional efforts and loyalty throughout another challenging year.

**Remuneration policy review**
As envisaged in the 2014 Directors' Remuneration Report, the Committee undertook a review of the Company's remuneration policy in 2015. The Committee does not propose any changes at the current time, given volatile market conditions. The Committee does, however, intend to revisit this issue towards the end of 2016, at which time the revised guidance of The Investment Association, relating to executive remuneration, will be available. The Committee hopes that, as expected, this will lead to a simplification of executive remuneration, and that this can be reflected in the Company's remuneration policy. We intend to consult with our major shareholders in advance of making significant changes, as appropriate.

Whilst the market capitalisation of the Company has decreased compared to its previous levels, the complexity of the Group remains. In addition, the Board's approval of the POX joint venture undertaking, as detailed in the Strategic Report, which is subject to shareholder approval, and the Board's decision to develop the Group's underground mining potential necessitate that the Company is able to retain its skilled Executive team. Whilst acknowledging the challenging external environment for both the Company and its mining peers, these factors are recognised by the Committee and they will be considered during the proposed remuneration policy review.

In the current climate the Committee will again consider carefully the Group's position, the gold price environment and the outcome for 2016 in deciding whether, and at what level, to award bonuses for that year. Any bonus paid will be based on the achievement of the 2016 performance targets set out in general terms on page 107, whilst recognising the importance of safety. Given the critical importance of the underground mining and POX projects to the Group, these are included as bonus objectives. For reasons of commercial sensitivity, detailed information and figures on the various bonus objectives are not given on a prospective basis. Our intention is to publish these retrospectively, together with the outcome, in the Annual Report on Remuneration for 2016. We have disclosed the performance targets and achievement against these targets for the 2015 annual bonus on page 106.

Details of the other key decisions taken by the Committee during the year are set out in the Annual Report on Remuneration on pages 107 to 107. Last year's Directors' Remuneration Report received a vote in favour of 88.4% of votes cast at the 2015 Annual General Meeting. We appreciate the support given by shareholders and the Committee hopes that the decisions outlined in this Directors' Remuneration Report will meet with the approval of shareholders.

As the Company's remuneration policy, which was approved by shareholders in 2014, remains unchanged, there is no requirement for further shareholder approval in 2016. The Committee continues to operate within the parameters of the existing policy.

I will be in attendance at the Company's 2016 Annual General Meeting and will be pleased to discuss any remuneration matters with you. If you are unable to attend or have a query or comment prior to this date please email the Company Secretary, Amanda Whalley at aw@petropavlovsk.net and we will be pleased to address any issues.

**Sir 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 2015.

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 96 to 103) was approved by Shareholders on 17 June 2014 and is included for ease of reference. The report below is as disclosed in the 2013 Directors' Remuneration Report, save for a number of non-significant changes (as permitted under the terms of the approved policy), as follows:

– Reference to financial years updated
– Reward scenario charts updated for 2016 salaries

The Statement from the Chairman of the Remuneration Committee (set out on page 95) and the Annual Report on Remuneration (set out on pages 104 to 110) will be subject to an advisory vote at the 2016 Annual General Meeting.

# Remuneration policy report

The Group's remuneration policy is designed to provide remuneration packages 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 tables below summarise 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 of Policy in 2016 on pages 107 and 108.

| Remuneration element | Base salary |
|---|---|
| Purpose and link to strategy | Paying a market competitive level of guaranteed cash earnings should assist 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, the Executive Directors may receive a proportion of their pay in Russian roubles or US dollars.<br><br>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.<br><br>Reviews take account of:<br>– the individual performance of the Executive Director, his or her experience, skills and potential<br>– the challenges intrinsic to that individual's role<br>– market competitiveness within the Group's sector<br>– salary increases across the wider employee population<br>– 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.<br><br>Benefits may include (but are not limited to):<br>– Life assurance up to 4x salary, subject to underwriting<br>– Ill health income protection<br>– Travel insurance whilst on Company business. |
| Maximum opportunity | The cost of these benefits to the Company is dependent 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 and Chekashkin and Dr Maslovskiy. |
| Maximum opportunity | A Company contribution of up to 12.5% 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 circumstance and 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.<br>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:<br>– Annual gold production<br>– Total cash costs<br>– Net debt<br>– Delivery of capital expenditure projects on time and within budget<br>– Exploration success<br>– Safety.<br><br>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.<br><br>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").<br><br>At the time this policy was approved, it was the Committee's intention to grant Performance Share Awards over the term of the policy. However, no Performance Share Awards were granted in 2014 or 2015 or are proposed during 2016. Deferred Bonus Awards may be granted in relation to the 2016 bonus subject to the achievement of specific targets relating to the 2016 Annual Bonus Scheme. The Committee will consider the appropriateness of Deferred Bonus Awards for 2017 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.<br><br>Threshold performance will result in 30% vesting. |
| Performance metrics | The Committee will regularly review the performance conditions and targets to ensure that 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. |

## 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 members, 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. The Committee intends to consult with Shareholders regarding the proposed targets for the next LTIP Award.

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

There is no formal requirement for Directors' to own shares in the Company. However Mr Hambro and Dr Maslovskiy as founding shareholders and having participated as underwriters in the Rights Issue have an interest, together with their associates, in 4.65% and 4.57% of the voting rights over ordinary shares in the Company respectively. In value terms, the shareholding of both Mr Hambro and Dr Maslovskiy currently equates to approximately 17 times their annual salaries. All other Executive Directors and Non-Executive Directors who were Directors at the time participated in the Rights Issue.

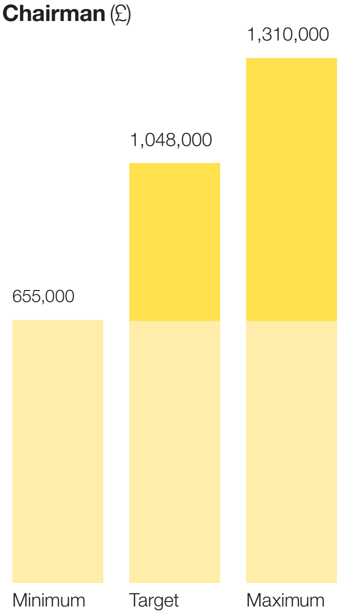
The Committee is mindful that, given the significant shareholdings of Mr Hambro and Dr Maslovskiy, the introduction of minimum shareholding guidelines for the Company's Executive Directors will only impact on the Chief Financial Officer. Given that there have been no LTIP Awards for four years the Committee does not consider that the introduction of shareholding guidelines at this time would be equitable.

The Committee will continue to monitor market trends with respect to minimum shareholding guidelines for the Company's Executive Directors and to keep this matter under review.

### 4. Reward scenarios

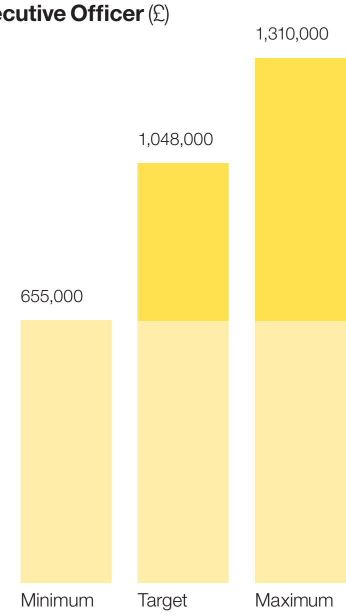
The Company's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The graphs below illustrate how the total pay opportunities for the Executive Directors vary under three different performance scenarios: minimum, target and maximum. When reviewing the graphs, it should be noted that they have been prepared on the policy detailed above and ignore, for simplicity, the potential impact of future share price growth. The graphs have been prepared on the basis that no LTIP Awards will be granted during 2016.

**Executive Chairman** (£)



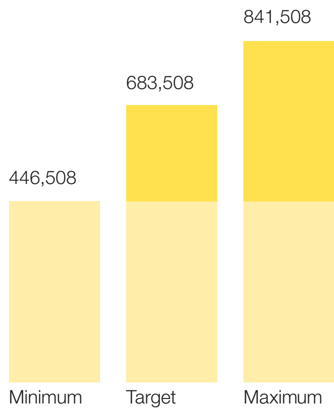

| | Minimum | Target | Maximum |
|---|---|---|---|
| Fixed pay | 100% | 62.5% | 50% |
| Variable pay | 0% | 37.5% | 50% |

**Chief Executive Officer** (£)




| | Minimum | Target | Maximum |
|---|---|---|---|
| Fixed pay | 100% | 62.5% | 50% |
| Variable pay | 0% | 37.5% | 50% |

**Chief Financial Officer** (£)




| | Minimum | Target | Maximum |
|---|---|---|---|
| Fixed pay | 100% | 65.33% | 53.06% |
| Variable pay | 0% | 34.67% | 46.94% |

**Key**
- Annual bonus
- Salary, pension & benefits

**Assumptions:**
Minimum = fixed pay only (base, salary, benefits and pension where applicable)

Target = 60% payable of the 2016 annual bonus

Maximum = 100% payable of the 2016 annual bonus.

Salary levels (on which other elements of the package are calculated) are based on levels as at 1 January 2016. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed on page 106) for the year ending 31 December 2015. The pension value for Mr Maruta is set at 12.5% of basic salary.

## 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 to 12.5% 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.<br><br>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 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 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 their 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' 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.

| Remuneration element | 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.<br><br>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 fees.

## 8. Differences in remuneration policy for Executive Directors compared to other employees

The Committee may 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 last LTIP Award grant in 2011. It is the intention that any future LTIP Awards 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 accordingly 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 the Environmental, Safety and Social Report on pages 24 and 25 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 will consult with its major shareholders on any material changes to remuneration.

## 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 2015, and how it will be implemented in 2016.

## 1. The Remuneration Committee

### 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 annual 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 2015

The Committee held three formal meetings during the year under review in which certain matters relating to the Refinancing were also considered. The Company Chairman attended parts 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.

During the year the Committee:

- Considered the outcome of the 2014 Bonus Objectives, approving the Chairman's proposal that with the exception of the incoming Chief Executive Officer no bonuses should be paid
- Considered and approved the 2015 Bonus Objectives
- Reviewed the base salary of the Executive Directors in respect of the annual salary review due 1 January 2016, and based on the Company Chairman's recommendation, concluded that given the Group's focus on strong financial discipline, no salary increases should be awarded to the Executive Directors and members of the Executive Committee
- Reviewed and approved the 2014 Directors' Remuneration Report.

As envisaged following the conclusion of the Refinancing, Sir Malcolm Field, Lord Charles Guthrie and Dr David Humphreys retired as Non-Executive Directors and members of the Committee. Mr Robert Jenkins was appointed to the Committee with effect from 1 May 2015. However given Mr Jenkins' additional responsibilities as Audit Committee Chairman, it was agreed that he would retire from the Committee upon the appointment of Messrs Alexander Green and Andrew Vickerman, which took effect from 22 October 2015.

*Remuneration policy review*

Given that the "new" Committee was not constituted until October 2015, the Committee did not undertake its planned review of the Company's remuneration policy until March 2016. The Committee sought advice from Kepler, independent remuneration advisers to the Committee, during its review which concluded that:

- No changes in the Company's policy should be proposed to shareholders at the current time
- With the Chairman's agreement, given the continued challenging environment in which the Group operates, no Long-Term Incentive Award should be made during 2016
- The Committee should revisit the Company's remuneration policy towards the end of 2016, at which time the revised guidance of The Investment Association on executive remuneration will be available. The Committee hopes that this will lead to a simplification of executive remuneration which can be reflected in the Company's remuneration policy.

It is the Committee's intention to consult with its major shareholders on any significant proposed changes to the Company's remuneration policy, following the proposed review, prior to seeking approval of the revised policy at the 2017 Annual General Meeting.

## 2. External advisers

Kepler (part of the MMC group of companies), independent remuneration consultants appointed by the Committee after consultation with the Board, continued to act as the remuneration adviser 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 is a signatory to the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at www.remunerationconsultantsgroup.com).

In 2015, Kepler provided independent advice on the proposed bonus payment to the Chief Executive Officer and support in drafting the Directors' remuneration report. Kepler reports directly to the Committee Chairman and, with the exception of Marsh, who act as insurance broker to the Company, neither Kepler nor any other part of the MMC group of companies provides any other services to the Company. Kepler's total fees for the provision of remuneration services to the Committee in 2015 were £4,068 on the basis of time and materials, excluding expenses and VAT.

## 3. Shareholder voting at the 2015 AGM

The table below sets out the results of the vote on the Remuneration Report at the 2015 AGM:

| | Annual Report on Remuneration | |
|---|---|---|
| | Total number of votes | % of votes cast |
| For (including Chairman's discretion) | 1,381,606,136 | 88.36% |
| Against | 176,095,046 | 11.26% |
| Total votes cast (excluding withheld votes but including third party discretion) | 1,563,593,995 | |
| Votes withheld | 4,242,872 | |

*Notes:*

*i) Third party proxies were appointed in respect of 5,892,813 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.*

### 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 2015 and 31 December 2014:

| | Year | Salary & fees | Taxable Benefit[i] | Annual Bonus | Pension | Pay in lieu of notice[iv] | Single Figure Remuneration Total £ | Single Figure Remuneration US$ |
|---|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | | |
| Peter Hambro | 2015 | 655,000 | – | – | – | – | 655,000 | 1,002,150 |
| | 2014 | 555,000 | – | – | – | – | 555,000 | 915,750 |
| Pavel Maslovskiy[ii] | 2015 | 655,000 | – | – | – | – | 655,000 | 1,002,150 |
| | 2014 | 80,938 | – | 555,000 | – | – | 635,938 | 1,049,297 |
| Andrey Maruta | 2015 | 395,000 | 2,133 | – | 49,375 | – | 446,508 | 683,158 |
| | 2014 | 395,000 | 22,788 | – | 49,375 | – | 467,163 | 770,819 |
| Sergey Ermolenko[iii] | 2015 | – | – | – | – | – | – | – |
| | 2014 | 341,667 | – | – | – | – | 341,667 | 563,750 |
| Dmitry Chekashkin[iv] | 2015 | 100,000 | – | – | – | – | 100,000 | 153,000 |
| | 2014 | 300,000 | – | – | – | – | 300,000 | 495,000 |
| Alya Samokhvalova[iv] | 2015 | 126,667 | 1,435 | – | 15,833 | – | 143,935 | 220,221 |
| | 2014 | 380,000 | 3,791 | – | 47,500 | – | 431,291 | 711,630 |
| Martin Smith[v] | 2015 | 126,667 | 3,698 | – | 15,833 | – | 146,198 | 223,682 |
| | 2014 | 380,000 | 6,104 | – | 47,500 | – | 433,604 | 715,447 |
| Total | 2015 | 2,058,334 | 7,266 | – | 81,041 | – | 2,146,641 | 3,284,361 |
| Total | 2014 | 2,432,605 | 32,683 | 555,000 | 144,375 | – | 3,164,663 | 5,221,693 |
| **Non-Executive Director** | | | | | | | | |
| Graham Birch[v] | 2015 | 26,803 | – | – | – | – | 26,803 | 41,009 |
| | 2014 | 80,410 | – | – | – | – | 80,410 | 132,676 |
| Sir Malcolm Field[v] | 2015 | 31,533 | – | – | – | – | 31,533 | 48,246 |
| | 2014 | 94,600 | – | – | – | – | 94,600 | 156,090 |
| Lord Charles Guthrie[v] | 2015 | 30,667 | – | – | – | – | 30,667 | 46,920 |
| | 2014 | 92,000 | – | – | – | – | 92,000 | 151,800 |
| David Humphreys[v] | 2015 | 30,667 | – | – | – | – | 30,667 | 46,920 |
| | 2014 | 92,000 | – | – | – | – | 92,000 | 151,800 |
| Sir Roderic Lyne | 2015 | 80,667 | – | – | – | – | 80,667 | 123,420 |
| | 2014 | 92,000 | – | – | – | – | 92,000 | 151,800 |
| Charles McVeigh[v] | 2015 | 30,667 | – | – | – | – | 30,667 | 46,920 |
| | 2014 | 92,000 | – | – | – | – | 92,000 | 151,800 |
| Robert Jenkins[vi] | 2015 | 56,667 | – | – | – | – | 56,667 | 86,700 |
| | 2014 | – | – | – | – | – | – | – |
| Alexander Green[vii] | 2015 | 25,865 | – | – | – | – | 25,865 | 39,574 |
| | 2014 | – | – | – | – | – | – | – |
| Andrew Vickerman[viii] | 2015 | 12,500 | – | – | – | – | 12,500 | 19,125 |
| | 2014 | – | – | – | – | – | – | – |
| Total | 2015 | 326,036 | – | – | – | – | 326,036 | 498,834 |
| Total | 2014 | 543,010 | – | – | – | – | 543,010 | 895,966 |

*(i) Benefits are in respect of private medical insurance for the Director, their spouse and any children under the age of 18 years of age and for 2014 only, included pay in lieu of holiday entitlement.*

*(ii) Dr Pavel Maslovskiy was appointed as a Director and as Chief Executive Officer on 5 November 2014. Dr Maslovskiy was awarded a bonus of £555,000 in respect of the year ended 31 December 2014 of which 50% was payable in cash and 50% in the form of a Deferred Bonus Award (see page 110).*

*(iii) Mr Sergey Ermolenko resigned as a Director and as Chief Executive Officer on 5 November 2014. Mr Ermolenko returned to his previous position as General Director of Management Company Petropavlovsk.*

*(iv) Dr Alya Samokhvalova and Mr Dmitry Charles Chekashkin resigned as Directors of the Company on 30 April 2015 but remain with the Company as Strategic Director/Group Head of External Communications and Chief Operating Officer respectively. They are both members of the Executive Committee.*

*(v) Mr Martin Smith, Dr Graham Birch, Sir Malcolm Field, Lord Charles Guthrie, Dr David Humphreys and Mr Charles McVeigh III retired as Directors of the Company on 30 April 2015.*

*(vi) Mr Robert Jenkins was appointed as a Non-Executive Director of the Company on 30 April 2015.*

*(vii) Mr Alexander Green was appointed as a Non-Executive Director of the Company on 27 August 2015.*

*(viii) Mr Andrew Vickerman was appointed as a Non-Executive Director of the Company on 22 October 2015.*

*(ix) Rates of exchange used: 2015: £0.65:US$1, 2014: £0.61:US$1 (average exchange rate throughout the year).*

## Additional disclosures

### 1. Salary and fees

No salary increases were awarded to the Executive Directors during the year, recognising the low rate of inflation in the UK and the ongoing cost reduction programme in the lower gold price environment.

On 1 January 2015, Mr Hambro's salary was reinstated to that prior to his voluntary reduction on 1 June 2012 (£655,000). Due to the financial situation of the Company at the time of Dr Maslovskiy's return, he agreed to accept an annual salary of £555,000, £69,000 lower than his former salary of £624,000. Given the successful conclusion of the Refinancing, in which Dr Maslovskiy played a central role, and his importance to the next stage of the Group's development, the Committee decided that Dr Maslovskiy's salary should be increased to £655,000 with effect from 1 January 2015.

Fees for the Non-Executive Directors were reduced by c.18.5% with effect from 1 May 2015, from £92,000 to £75,000. This reduction in fees was volunteered to the Chairman by the Non-Executive Directors, to reflect the lower market capitalisation of the Company, and accepted by the Board. In addition the Chairman of the Audit Committee and the Senior Independent Director are entitled to an additional payment of £10,000 and £7,500 per annum respectively, in respect of these additional responsibilities. At his request, Sir Roderic Lyne did not receive the additional payment due to him for his role as Senior Independent Director.

### 2. Pension

The Group makes contributions into a personal pension scheme on behalf of Mr Andrey Maruta and Dr 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 2015, the Group's pension contribution for Mr Maruta and Dr Samokhvalova for the period that she was Director of the Company, was £49,375 and £15,833 respectively. Dr Samokhvalova resigned as a Director of the Company on 30 April 2015 but retained her roles as Strategic Director and Group Head of External Communications and her membership of the Executive Committee.

As a non UK-resident, Director Mr Martin Smith received a contribution of 12.5% of base salary until the date of his retirement on 30 April 2015, in respect of a pension entitlement which he was able to use to provide retirement provisions via a savings vehicle.

Messrs Hambro, Chekashkin and Dr Maslovskiy received no payment from the Company in respect of pension entitlements.

### 3. Annual Bonus in 2015

| Objective | Target | Payout for target performance (% of max) | Stretch target | Payout for stretch performance (% of max) | Achieved | Bonus payable (% of max) |
|---|---|---|---|---|---|---|
| Total Group production | 680,000oz | 6% | 700,000oz | 10% | 504,100oz[(a)] | 0% |
| Total Cash Costs per oz | US$700oz | 18% | <US$650oz | 30% | US$749oz | 0% |
| Net Debt | US$600m | 18% | <US$600m | 30% | US$610m | 0% |
| JORC Reserves & Resources | Same as at 1/1/2015 after depletion | 18% | More than as at 1/1/2015 after depletion | 30% | c.1% increase | 30% |
| Bonus earned | | | | | | 30% |

*(a) Lower production was principally due to the change in the Group's strategy to focus on the mining and production of ounces with the highest possible profit margin while enabling the Group to achieve its deleveraging programme targets.*

As detailed in the table above, the formulaic outcome of the 2015 annual bonus resulted in a bonus payable equivalent to 30% of annual base salary. However given that the Company continues to operate in a very difficult environment the Company Chairman did not consider it appropriate for the Executive team to accept the bonus and recommended that both he and the Executive team waive payment of their bonus. Consequently no bonus was paid to any Executive Director during the year ended 31 December 2015.

### 4. Long-term incentive plan (LTIP)

Given that the "new" Committee was not fully constituted until October 2015, no decision was taken during 2015 to grant a Performance Share Award under the LTIP.

Dr Pavel Maslovskiy, Chief Executive Officer, was granted a Deferred Bonus Award under the LTIP on 1 May 2015 in respect of 50% of his 2014 annual bonus. 4,648,241 Ordinary Shares, the subject of the Award, will vest on 1 May 2016 subject to Dr Maslovskiy's continued employment with the Company.

### 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 for loss of office

No payments were made for loss of office to any past directors during the year.

### 7. External directorships

None of the Executive Directors earned remuneration from external non-executive appointments.

## Statement of implementation of policy in 2016

### 1. Salary and fees

The review for salary increases effective 1 January 2016 was conducted by the Committee in December 2015. It was agreed that no salary increases should be awarded, recognising the low rate of inflation and the ongoing cost reduction programme in the lower gold price environment.

No increases were made to the fees of the Non-Executive Directors. At his request, Sir Roderic Lyne does not receive the payment of £7,500 per annum to which he is entitled for his additional responsibilities as Senior Independent Director.

Salaries and fees as at 1 January 2015 and 1 January 2016, for current Directors, are detailed in the table below:

| Director | Position | Salary/fees 2015 | Salary/fees 2016 | Change |
|---|---|---|---|---|
| Peter Hambro | Chairman | £655,000 | £655,000 | 0% |
| Pavel Maslovskiy | Chief Executive Officer | £655,000 | £655,000 | 0% |
| Andrey Maruta | Chief Financial Officer | £395,000 | £395,000 | 0% |
| Sir Roderic Lyne | Non-Executive Director | £92,000 | £75,000 | (13.5%) |
| Robert Jenkins [(a), (b)] | Non-Executive Director | N/A | £85,000 | N/A |
| Alexander Green [(b)] | Non-Executive Director | N/A | £75,000 | N/A |
| Andrew Vickerman [(b)] | Non-Executive Director | N/A | £75,000 | N/A |

*a) Mr Robert Jenkins is Chairman of the Audit Committee for which he is entitled to an additional fee of £10,000 per annum.*

*b) Messrs Jenkins, Green and Vickerman were appointed as Non-Executive Directors of the Company on 30 April 2015, 27 August 2015 and 22 October 2015 respectively.*

### 2. Annual Bonus

The Annual Bonus for 2016 will be subject to the following performance conditions:

| Objective | Weighting |
|---|---|
| Production | 10% |
| Total cash costs | 10% |
| Net Debt as at 31 December 2016 | 10% |
| Projects, including underground mining and POX | 60% |
| Health & Safety – Lost-Time Injury Frequency Rate target | 10% |

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 between Target and Stretch.

Details of the specific targets have not been disclosed in advance due to their commercial sensitivity.

The specific targets will be detailed in the 2016 Directors' Remuneration Report, unless the Committee considers that they continue to be commercially sensitive, in which case they will be disclosed no later than in 3 years' time.

**Summary of Annual Bonus Rules:**

- The annual bonus outcome will be determined with reference to the achievement of the performance conditions, subject to the Committee's discretion, based on a broader assessment of overall Company performance. The Committee has the discretion to reduce bonus payments based on its qualitative assessment of overall HSE performance, taking into account the occurrence of any material adverse HSE event or an event which leads to significant reputational damage for the Company.
- 25% of any bonus payable will be paid in the form of a Deferred Bonus Award under the LTIP. 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.
- The remaining 75% of any bonus will be payable in cash, subject to the normal statutory deductions.
- Malus and clawback provisions 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.

### 3. Long-Term Incentive Award

The Committee does not intend to grant any Performance Share Awards during 2016. Depending on the satisfaction of the 2016 Annual Bonus targets, the Committee may make a Deferred Bonus Award equivalent to the value of 25% of the annual bonus payable.

### 4. 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 Region of Russia 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 (a) | | | Executive Committee | | |
|---|---|---|---|---|---|---|
| Item | 2015 £ | 2014 £ | Change % | 2015 £ | 2014 £ | Change % |
| Base salary | 655,000 | 422,604 | 55 | 264,186 (c) | 314,250 | (15%) |
| Taxable benefits | – | – | 0 | 1,972 | 4,320 (b) | (54%) |
| Annual bonus | – | 555,000 | – | – | – | 0 |

*(a) Mr Sergey Ermolenko resigned as Chief Executive Officer and as a Director of the Company on 5 November 2014, returning to his previous position of General Director of Management Company Petropavlovsk. Dr Pavel Maslovskiy was appointed as Chief Executive Officer on 5 November 2014.*

*(b) Due to the Refinancing in 2014, certain members of the Executive Committee were unable to take a significant proportion of their holiday entitlement and the Committee agreed to make a payment in lieu of a number of unused days' holidays. This is included in taxable benefits.*

*(c) The decrease in the average salary of the Executive Committee members was due to a change in membership, with the resignation of Mr Martin Smith who retired as a Director on 30 April 2016. In addition, certain members of the Executive Committee receive part or all of their salary in Russian rouble, which has depreciated significantly against sterling and the US dollar during the past 12 months.*

### 5. Relative importance of the spend on pay

The table below shows the movement in spend on staff costs between the 2015 and 2014 financial years, compared to dividends:

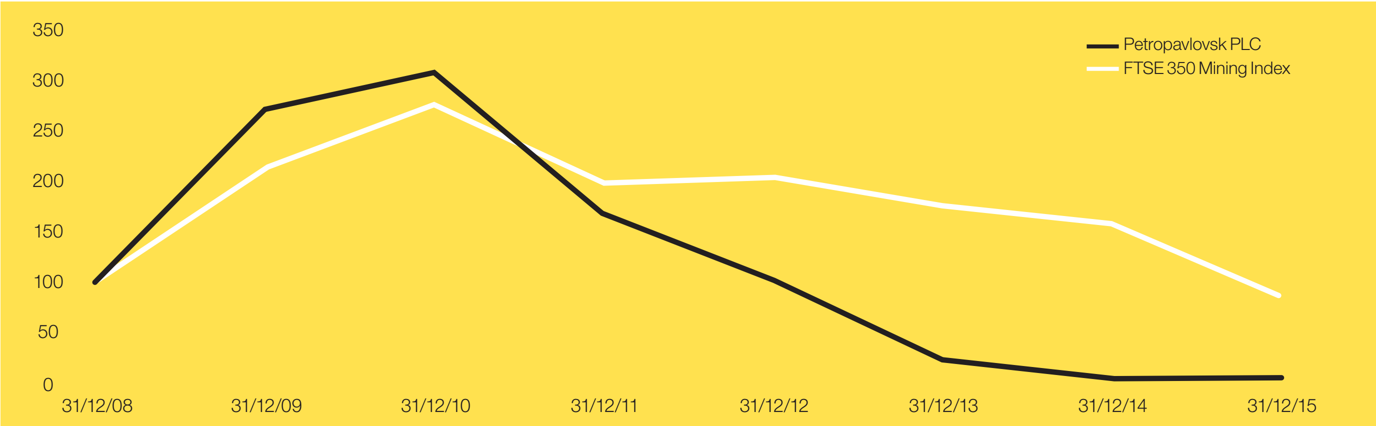
| | 2015 | 2014 | % change |
|---|---|---|---|
| Staff costs – continuing operations | US$89.5m | US$132m | (32) |
| Average number of staff – continuing operations | 8,469 | 9,532 | (11) |
| Dividends | – | – | – |

There were no dividends paid or declared during the years ended 31 December 2015 and 31 December 2014 and no share buy-backs were undertaken.

**Total shareholder return (unaudited information)**

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**




## 6. Chief Executive Officer Remuneration

| | Year ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| CEO during the year [a] | | Dr Maslovskiy | | | Mr Ermolenko | Mr Ermolenko / Dr Maslovskiy | Dr Maslovskiy |
| Total remuneration £ | 1,138,339 [b] | 1,025,991 | 1,569,190 | 661,000 | 400,000 | 977,605 [c] | 655,000 |
| Annual bonus (%) | 70% [b] | 45% | 94.4% | 45.5% | 0% | 100% [c] | 0% [d] |
| LTIP vesting (%) | 0% | 0% | 0% | 0% | 0% | n/a | n/a |

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. Mr Ermolenko retired as Chief Executive officer on 5 November 2014 and Dr Maslovskiy was appointed as Chief Executive Officer on that date.*

b. *Dr Pavel Maslovskiy 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 Aircom 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 for 2009 shown above but is not included in the annual bonus percentage figure shown of 70%.*

c. *Dr Pavel Maslovskiy was awarded a bonus of 100% of basic annual salary of which 50% was payable in cash and 50% in the form of a Deferred Bonus Award.*

d. *The formulaic outcome of the 2015 Annual Bonus Plan would have resulted in a bonus of 30% of basic salary. However, Dr Maslovskiy agreed that his bonus payment should be waived.*

## Directors' shares and share plan interests

### Directors' share interests

The interests of the Directors who held office during the period from 1 January 2015 to 31 December 2015 in the ordinary shares of the Company, together with details of changes to shareholdings between 1 January 2016 and 28 April 2016, are as set out in the table below.

| Director | Shares held as at 1 January 2015 or date of appointment if later | Shares held as at 31 December 2015 or date of retirement if earlier [c] | Shares held as at 27 April 2016 | Deferred Bonus Award (without performance conditions) |
|---|---|---|---|---|
| Peter Hambro | 6,773,933 | 152,280,861 | 152,280,861 | – |
| Pavel Maslovskiy [a] | 7,514,485 | 186,126,105 | 149,956,105 | 4,648,241 [c] |
| Andrey Maruta | 22,135 | 33,925 | 33,925 | – |
| Dmitry Chekashkin [a] | 18,629 | 4,761,104 | N/A | – |
| Alya Samokhvalova [a] | 18,629 | 311,121 | N/A | – |
| Martin Smith [a] | 18,629 | 311,121 | N/A | – |
| Graham Birch [a] | 15,780 | 263,526 | N/A | – |
| Sir Malcolm Field [a] | 52,930 | 883,931 | N/A | – |
| Lord Charles Guthrie [a] | – | – | N/A | – |
| David Humphreys [a] | 1,914 | 31,963 | N/A | – |
| Sir Roderic Lyne | 1,709 | 28,540 | N/A | – |
| Charles McVeigh III [a] | 526 | 8,350 | N/A | – |
| Robert Jenkins [b] | – | 750,000 | 750,000 | – |
| Alexander Green [b] | – | – | – | – |
| Andrew Vickerman [b] | – | – | – | – |

*(a) Mr Dmitry Chekashkin, Dr Alya Samokhvalova, Mr Martin Smith, Dr Graham Birch, Sir Malcolm Field, Lord Charles Guthrie, Dr David Humphreys and Mr Charles McVeigh III retired as Directors of the Company on 30 April 2016.*

*(b) Messrs Robert Jenkins, Alexander Green and Andrew Vickerman were appointed as Directors of the Company on 30 April 2015, 27 August 2015 and 22 October 2015 respectively.*

*(c) The Deferred Bonus Award will vest on 1 May 2016 and these shares will be transferred to Dr Pavel Maslovskiy on 1 May 2016, subject to his continuing employment with the Company.*

### Long-Term Incentive Plan

*Executive Directors' interest in the LTIP*

There were no LTIP Awards outstanding as at 1 January 2015 and no LTIP Awards were made during the year, with the exception of the Deferred Bonus Award made to Dr Maslovskiy in respect of 50% of his 2014 bonus:

| Director | Date of award | At 1 January 2015 | Granted during the year | Face value at grant | At 31 December 2015 | Normal vesting date |
|---|---|---|---|---|---|---|
| Pavel Maslovskiy | 1 May 2015 | – | 4,648,241 | £277,500 | 4,648,241 | 1 May 2016 |

The total of 4,648,241 Ordinary Shares, the subject of the award, will vest and will be transferred to Dr Maslovskiy on 1 May 2016, subject to his continuing employment with the Company. Shares were awarded based on a price of 5.97 pence per share being the mid-market closing share price of Petropavlovsk PLC on 1 May 2015.

### 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 2016

# Directors' Report

For the year ended 31 December 2015

## This report

The Corporate Governance Section on pages 82 to 87 and the Statement of Directors' Responsibilities on page 118 form part of this Directors' Report and are incorporated by reference.

## Management report

The Directors' Report together with the Strategic Report on pages 4 to 77 forms the Management Report for the purposes of DTR4.1.5R.

### 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 80 and 81 and are incorporated into this report by reference.

Mr Peter Hambro, Dr Pavel Maslovskiy and Mr Andrey Maruta held office throughout the year ended 31 December 2015.

Dr Graham Birch, Sir Malcolm Field, Lord Charles Guthrie, Dr David Humphreys, Mr Charles McVeigh III and Mr Martin Smith retired as Directors on 30 April 2015, following the successful conclusion of the Refinancing on 18 March 2015. Mr Dmitry Chekashkin and Dr Alya Samokhvalova retired as Directors of the Company on 30 April 2015 but remained in their roles as Chief Operating Officer and Group Head of External Communications/ Strategic Director respectively. Mr Chekashkin and Dr Samokhvalova are members of the Executive Committee.

Messrs Robert Jenkins, Alexander Green and Andrew Vickerman were appointed as independent Non-Executive Directors of the Company with effect from 30 April 2015, 27 August 2015 and 22 October 2015 respectively.

#### 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 ("AGM") 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 eligible Directors will stand for election at the 2016 AGM. Further information on the appointments to the Board is set out in the Corporate Governance Statement on page 82.

#### 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 to the financial statements on page 161.

#### 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 2015. Future decisions regarding the dividend will be based on a number of factors, including market conditions, distributable reserves, liquidity, operational performance and the impact of the ongoing cost reduction programme.

The payment of dividends by the Company is also restricted by covenants in the Petropavlovsk 2010 Limited 9% Guaranteed Convertible Bonds due 2020 of which the Company is the guarantor.

#### 2.2. 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.

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.

### 2.3. 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 Operational Performance, Exploration Report, Reserves and Resources, and Future Development sections on pages 42 to 65 of the Strategic Report and Other Projects and are incorporated into this Directors' Report by reference.

### 2.4. Greenhouse gas emissions
The disclosures concerning greenhouse gas emissions required by law are included in the Environmental, Safety and Social Report on page 23.

### 2.5. Donations
In line with the Group policy, no donations were made for political purposes.

Details of the Group's charitable activities are set out in the Environmental, Safety and Social Report on page 24.

### 2.6. Financial instruments and financial risk management
Details of the Group's financial risk management objectives and policies and exposure to risk are described in notes 18 and 31 to the financial statements and in the Risks to Our Performance section on pages 26 to 39, which form part of this Directors' Report.

## 3. Share capital and related matters

### 3.1. Share capital
As at 31 December 2015, the Company's issued share capital comprised of a single class of 3,300,561,697 ordinary shares of £0.01 each with a nominal value of £0.01. Details of the Company's issued share capital are set out in note 23 on page 159.

### 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.

New Articles of Association were adopted by Special Resolution of shareholders of the Company on 26 February 2015. The Articles include a provision which allows the Board to impose such restrictions as the Directors may think necessary for the purpose of ensuring that no ordinary shares in the Company are acquired or held or transferred to any person in breach of Russian Strategic Asset Laws.

### 3.6. Allotment of Ordinary Shares and disapplication of pre-emption rights
The Company has authority to issue Ordinary Shares under its Articles of Association. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £10,890,000 and (ii) comprising equity securities up to a nominal amount of £21,780,000 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer of a rights issue, (the Section 551 amount), such Section 551 amount to apply until the conclusion of the AGM of the Company in 2017, or if earlier on 30 June 2017.

A special resolution will be proposed which will disapply the statutory pre-emption rights for issues of Ordinary Shares up to a maximum amount of £3,300,000, which represents approximately 10% of the Company's issued Ordinary Shares as at the date of this Report for certain purposes and in accordance with the guidelines set out in the Pre-Emption Group Statement of Principles, as revised in March 2015.

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

### 3.7. Amendment of Articles of Association
The Company's Articles of Association may be amended by special resolution of shareholders. A copy of the Company's Articles of Association adopted by shareholders on 26 February 2015 are available on the Company's website.

### 3.8. Notifiable interests in share capital
Information provided to the Company pursuant to the Financial Conduct Authority's Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website.

As at 31 December 2015, the Company had received the following disclosures of major holdings of voting rights, pursuant to the requirements of DTR5, from holders of notifiable interest in the Company's voting rights:

| | No of Shares | % interest in voting rights | Financial Instruments | % interest in voting rights | Financial instruments with similar economic effect to Qualifying Financial Instruments | % interest in voting rights | Total number of voting rights | % of voting rights |
|---|---|---|---|---|---|---|---|---|
| Polo Company S.A. [a] Lamesa Group Holding S.A. Lamesa Foundation | 483,992,987 | 14.76 | – | – | 169,791,575 | 5.18 (nominal) | 653,784,562 | 19.94 |
| Vailaski Holdings Limited [b] | 395,491,398 | 12.06 | – | – | – | – | 395,491,398 | 12.06 |
| Sothic Capital European Opportunities Master Fund Limited [c] Gertjan Koomen | 347,534,872 | 10.60 | – | – | 14,837,653 | 0.44 (Delta) | 362,372,525 | 11.05 |
| Prudential plc group of companies [d] | 224,905,854 | 6.86 | 250,005 | 0.00 | – | – | 225,155,859 | 6.86 |
| CapeView Capital LLP – CapeView Recovery Fund | 175,897,708 | 5.36 | – | – | – | – | 175,897,708 | 5.36 |
| Mr Andrey Vdovin through Vailaski Holding Limited | 131,830,466 | 4.02 | – | – | – | – | 131,830,466 | 4.02 |
| D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP [e] DBMMA015 is the full name of the shareholder with respect to the indirect interest over 117,609,333 Ordinary Shares | 117,609,333 [f] | 3.59 | – | – | 287,370,096 | 8.77 (Delta) | 404,979,429 | 12.35 |

*(a) The interest in financial instructions with similar economic effect to qualifying financial instruments of Polo/Lamesa related to the Group's 9% Convertible Bonds due 2020 only.*

*(b) Each of Mr Peter Hambro, Chairman, Dr Maslovskiy, Chief Executive Officer and Mr Andrey Vdovin had call and voting rights and was subject to put rights in respect of one third of the ordinary shares held by Vailaski Holdings Limited.*

*(c) The interest in financial instruments with similar economic effect to qualifying financial instruments of Sothic Capital European Opportunities Master Fund Limited related to Contract for Differences and Total Rate Return Swap.*

*(d) The interest in qualifying instruments of Prudential group of companies related to a 'Right of Recall.'*

*(e) D E Shaw & Co had an interest in financial instruments with similar economic effect to qualifying financial instruments in relation to contract for differences and the Group's 9% Convertible Bond due 2020.*

*(f) Indirect holding.*

*(g) The issued share capital as at 31 December 2015 was 3,300,561,697 ordinary shares with 3,278,187,139 voting rights.*

The following Directors and their connected persons had an interest in 3% or more of the voting rights of the Company as at 31 December 2015:

| Shareholder | No. of Shares | % interest in voting rights |
|---|---|---|
| Dr Pavel Maslovskiy & Associates | 186,126,105 | 5.68 |
| Mr Peter Hambro & Associates | 152,280,861 | 4.645 |

The shares detailed in the above table include the voting rights that Mr Hambro and Dr Maslovskiy have in the ordinary shares held by Vailaski Holdings Limited.

As at 28 April 2016, the Company had received the following disclosures of major holdings of voting rights, pursuant to the requirements of DTR5, from holders of notifiable interest in the Company's voting rights.

| | No of Shares | % interest in voting rights | Financial Instruments | % interest in voting rights | Financial instruments with similar economic effect to Qualifying Financial Instruments | % interest in voting rights | Total number of voting rights | % of voting rights |
|---|---|---|---|---|---|---|---|---|
| Renova Asset Holding Ltd<br>Renova Holding Ltd<br>TZ Columbus Services Limited (as trustee for Columbus Trust) | 483,992,987 | 14.76 | – | – | – | – | 483,992,987 | 14.76 |
| Vailaski Holdings Limited[(a)] | 431,661,398 | 13.17 | – | – | – | – | 431,661,398 | 13.17 |
| Sothic Capital European Opportunities Master Fund Limited[(b)]<br>Gertjan Koomen | 347,534,872 | 10.60 | – | – | 14,837,653 | 0.44 (Delta) | 369,372,525 | 11.05 |
| Prudential plc group of companies[(c)] | 224,905,854 | 6.86 | 250,005 | 0.00 | – | – | 225,155,859 | 6.86 |
| CapeView Capital LLP – CapeView Recovery Fund | 175,897,708 | 5.36 | – | – | – | – | 175,897,708 | 5.36 |
| Polo Company S.A.[(d)]<br>Lamesa Group Holding S.A.<br>Lamesa Foundation | – | – | – | – | 169,791,575 | 5.18 (nominal) | 169,791,575 | 5.18 |
| Mr Andrey Vdovin through Vailaski Holdings Limited | 131,830,466 | 4.02 | – | – | – | – | 131,830,466 | 4.02 |
| D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP[(e)] DBMMA015 is the full name of the shareholder with respect to the indirect interest over 117,609,333 Ordinary Shares | 117,609,333[(f)] | 3.59 | – | – | 139,000,000 | 4.24 (Delta) | 256,609,333 | 7.82 |

*(a) Each of Mr Peter Hambro, Chairman, Dr Maslovskiy, Chief Executive Officer and Mr Andrey Vdovin has call and voting rights and is subject to put rights in respect of 131,830,466 of the ordinary shares held by Vailaski Holdings Limited.*

*(b) The interest in financial instruments with similar economic effect to qualifying financial instruments of Sothic Capital European Opportunities Master Fund Limited relate to Contract for Differences and Total Rate Return Swap.*

*(c) The interest in qualifying instruments of Prudential group of companies relate to a 'Right of Recall.'*

*(d) The interest in financial instruments with similar economic effect to qualifying financial instruments of Polo/Lamesa relate to the Group's 9% Convertible Bonds due 2020 only.*

*(e) D E Shaw & Co has an interest in financial instruments with similar economic effect to qualifying financial instruments in relation to contract for differences.*

*(f) Indirect holding.*

*(g) The issued share capital as at 28 April 2016 was 3,300,561,697 ordinary shares with 3,278,187,139 voting rights.*

The following Directors and their connected persons had an interest in 3% or more of the voting rights of the Company as at 28 April 2016:

| Shareholder | No. of Shares | % interest in voting rights |
|---|---|---|
| Mr Peter Hambro & Associates | 152,280,861 | 4.645 |
| Dr Pavel Maslovskiy & Associates | 149,956,105 | 4.57 |

The shares detailed in the above table include the voting rights that Mr Hambro and Dr Maslovskiy have in the ordinary shares held by Vailaski Holdings Limited.

The information provided in the above tables was correct at the date of notification. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

As at 28 April 2016, the Company has not received any notification that any other person holds 3% or more of the Company's issued share capital.

## 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 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.

Pursuant to the issue of US$100 million 9.00% guaranteed Convertible Bonds due 2020 ('the Bonds') issued by Petropavlovsk 2010 Limited ('the Issuer') on 18 March 2015 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), the exchange price of the shares 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.

### 4.2. Post-balance sheet events
There have been no material events from 31 December 2015 to the date of this report except as detailed below:

On 27 April 2016, the Group entered into an agreement with LLC GMD Gold ('GMD Gold') to set up a new enterprise whereby the Group will contribute the existing POX Hub assets (note 13) and GMD Gold will provide US$120 million finance towards completion of the POX Hub development. Upon completion of the POX Hub development, each party will have the right to use the 50% capacity of the POX Hub. This transaction will require shareholder approval.

On 28 April 2016, the Group entered into a contribution agreement to acquire a 100% share in the LLC Amur Zoloto, a gold company with production and development assets in the Khabarovsk Region in the Far East of Russia. Upon completion, consideration for the transaction will be satisfied by the issue of new ordinary shares in the Company. This transaction will require shareholder approval.

## 5. 2016 Annual General Meeting (AGM)

### 5.1. Notice of General Meeting
A separate document, the Notice of Annual General Meeting 2016, convening the AGM of the Company to be held on 28 June 2016 at 1.00 p.m., 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 AGM 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 2015 annual report and financial statements, 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. Disclosure required under the Listing Rules

For the purpose of LR9.8.4CR, the information required to be disclosed by LR9.8.4R can be found in the Annual Report in the following locations:

| Section | Topic | Location in the Annual Report |
|---|---|---|
| 1 | Interest capitalised | Note 9 to the Financial Statement on page 149 |
| 2 | Publication of unaudited financial information | Not applicable |
| 4 | Details of long-term incentive schemes | Remuneration Report page 98 |
| 5 | Waiver of emoluments by a Director | Remuneration Report pages 106 and 107 |
| 6 | Waiver of future emoluments by a Director | Remuneration Report page 107 |
| 7 | Non pre-emptive issues of equity for cash | Not applicable |
| 8 | Item (7) in relation to major subsidiary undertakings | Not applicable |
| 9 | Parent participation in a placing by a listed subsidiary | Not applicable |
| 10 | Contracts of significance | Directors' Report page 115 |
| 11 | Provision of services by a controlling shareholder | Not applicable |
| 12 | Shareholder waivers of dividends | Not applicable |
| 13 | Shareholder waivers of future dividends | Not applicable |
| 14 | Arrangements with controlling shareholders | Not applicable |

## 7. Accountability and audit

### 7.1. 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 77 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 66 to 77 of this Annual Report. In addition, note 2 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.

The Group monitors and manages its liquidity risk on an ongoing basis to ensure that it has access to sufficient funds to meet its obligations. Cash forecasts are produced regularly based on a number of inputs including, but not limited to, forecast commodity prices and impact of hedging arrangements, Group mining plan, forecast expenditure and debt repayment schedules. Sensitivities are run for different scenarios including, but not limited to, changes in commodity prices, cost inflation, different production rates from the Group's producing assets and the timing of expenditure on development projects. This is done to identify risks to liquidity and covenant compliance and enable management to develop appropriate and timely mitigation strategies. The Group meets its capital requirements through a combination of sources including cash generated from operations and external debt.

The Group performed an assessment of the forecast cash flows and covenant compliance in relation to bank facilities for the period of 12 months from the date of approval of the 2015 Annual Report and Accounts. As at 31 December 2015, the Group had sufficient liquidity headroom and complied with related financial covenants. The Group's projections demonstrate that although the Group expects to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule on 20 June 2016 and a breach of certain financial covenants, being leverage and interest service ratios, within the bank facilities as at the next measurement date, being 30 June 2016, is likely to arise.

In view of the above, the Group is in negotiations with its principal lenders with a view to obtaining satisfactory modifications and temporary waivers regarding the existing covenants ahead of the testing period and the current repayment schedule ("Debt Restructuring"). The Group has received written comfort from their principal lenders intending to support the Debt Restructuring. If an agreement with the Group's principal lenders in relation to the Debt Restructuring cannot be reached, and as a result a covenant breach and/ or missed debt repayment occurs, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$276.25 million as at 31 December 2015. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment.
The Directors of IRC have forecast that certain financial covenants under the ICBC facility are likely to be breached at the next testing date of 30 June 2016 and IRC will not have sufficient liquidity to facilitate a debt repayment of US$21.5 million due on 21 June 2016, which will cause the related facility to become immediately due and payable. However, IRC has obtained from ICBC approved waivers of the financial covenants until and inclusive of 31 December 2017, conditional, among others, on approval of the Debt Restructuring by the Group's principal lenders, a result of which is that approval of the Debt Restructuring must be completed and approved by 20 June 2016 to facilitate IRC's debt repayment schedule being met.

The risk that the Group will be unable to achieve appropriate mitigating actions prior to 20 June 2016 or secure an appropriate relaxation or amendment of its financial covenants in order to avoid a breach of covenants is a material uncertainty which may cast significant doubt upon the Company's ability to continue to apply the going concern basis of accounting.

Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation, after taking into account the aforementioned factors, that the Group will 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 2015 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Accordingly, the Directors have a reasonable expectation that the Group has 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 2015 Annual Report and Accounts. Thus, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

### 7.2. Viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required for the "Going Concern" statement. In preparing the assessment of viability the Board has considered the principal risks faced by the Group, including those relating to its associate, IRC , for which the Company is a guarantor of the ICBC facility with K&S, a subsidiary of IRC (the "ICBC Facility"), relevant fi nancial forecasts and sensitivities and the availability of adequate funding.

#### Assessment period and review of forecasts

The Board reviews the Group's forward plans and projections at least annually, and has selected a three-year period to end 2019 as one appropriate for the purposes of a longer term viability assessment. This reflects, in particular, its consideration of the following key matters relating to this timeframe:

- The maturity profile of the Group's existing debt finance facilities;
- The Group's plans to:
  - complete its POX Hub, via a joint venture arrangement, in order to accelerate its development with a view to commencing production in 2018; and
  - commence underground mining over the next three years; and
- The inherent significant uncertainties in forecasting the gold price over a longer term timeframe.

Forecasts are prepared using forward commodity price assumptions which are considered to be liquid for a period of three years. In addition, as detailed in the Chairman's Statement on page 4, the Group's major developments, including the completion of the POX Hub and the proposed underground mining development are scheduled to be undertaken during the three year forecast period. The Group is renegotiating the terms of its existing debt facilities to accommodate the above development plans. Furthermore, the majority of the Group's financing facilities are available during this timeframe.

While the Group's long term mining plan covers a five year period, the Directors have given particular consideration to the factors above, and have concluded that three years is the most appropriate period for assessing the Group's prospects (the "Forecast Period"). However the Directors do have due regard to viability over the longer term and particularly to key points outside this time frame, such as the due date for the repayment of long-term debt, and consider the Group's life of mine plans.

The Group's planning process is built on a mine by mine basis, using a detailed technical and financial model. The long-term plan ("LTP") makes certain assumptions regarding the future gold price environment and the Russian rouble US dollar exchange rate. The LTP is stress tested for market sensitivities as part of ongoing reviews. The key components of the LTP, associated principal risks and relevant scenario testing to this planning process are reviewed by the Directors at least annually as appropriate. The LTP also includes the requirements of financial covenants included within the Group's borrowing facilities with VTB and Sberbank (the "Senior Lenders") and the covenants relating to the ICBC Facility with its associate, IRC.

The Board considers that the LTP provides a robust planning tool against which strategic decisions can be made, however it is not prepared with the same level of detail as the annual budget and hence provides less certainty of outcome.

### Review of principal risks

During 2015, the Board carried out a robust assessment of the principal risks facing the Group, The Group's principal risks are set out in detail on pages 28 to 39 and the Board has considered carefully their impact on the Group's longer term viability in particular those that would threaten its business model, future performance, solvency or liquidity including the guarantee provided by the Company to ICBC in respect of the ICBC Facility (the "Guarantee"). IRC became an associate of the Group on 7 August 2015, however given the continuance of the Guarantee the Board closely reviews the operations of IRC and takes into account IRC's going concern analysis and financial model.

As detailed in the Chairman's Statement, and as highlighted to shareholders previously, the Group has been renegotiating with the Senior Lenders, with a view to revising and extending the maturity of the Group's bank debt and revising its financial covenants.

The key assumptions that are included in the three year forecast are that the Group will be able to:

i) obtain certain necessary covenant waivers or relaxation of covenants from the Senior Lenders prior to the 30 June 2016 testing date and thus meet its applicable banking covenants;
ii) extend and revise the maturity of its existing bank debt to enable the Group both to meet its repayment commitments under its loan facilities as they fall due and to meet its development plans; and
iii) complete the POX Hub, via the joint venture agreement, ("the POX JV transaction") and commence production in 2018. Under the terms of the joint venture arrangement, which is subject to shareholder approval, the joint venture partner will contribute a total of US$120 million towards the completion of the POX Hub, thus improving the Group's longer term liquidity position. The Group expects to process its refractory ore from 2018.

On this basis, the three year forecast supporting the Group's longer term viability statement also assumes that the bank covenant waivers relating to its associate IRC will apply. As IRC has already announced, ICBC has agreed to waivers, conditional upon the Group obtaining covenant waivers from the Senior Lenders.

In addition, the Board expects that full-scale operations at IRC's K&S facility, which is expected to be fully commissioned and operational in the second half of 2016, will enable IRC to generate sales and sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due.

The risk that the Group will be unable to achieve the matters detailed in (i) to (iii) above, including performance of K&S is a material uncertainty as explained in more detail in the going concern section of the Directors' Report on page 116. However, having assessed this risk and made enquiries, given the current status of negotiations with the Senior Lenders, progress regarding the POX JV transaction project and the current status of IRC's commissioning of K&S, the Board has concluded that these risks are unlikely to jeopardise the Group's viability during the Assessment Period. Additionally, it is the Board's intention to the POX transaction for approval by the shareholders.

### Conclusion

On the basis of the key assumptions described above and further supported by their expectations regarding the approval of the POX JV transaction by the shareholders, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due, during the next three years. The Directors' assessment has been made with reference to the Group's current position and prospects, the Group's strategy, the Board's risk appetite and how these are managed, as detailed in the Strategic Report.

### 7.3. 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.

### 7.4. 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 AGM.

## 8. Fair, balanced and understandable

The Directors consider that 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 2016

# Directors' Responsibilities Statement

For the year ended 31 December 2015

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 such financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements 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 Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements
- 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
- 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.

**Directors' responsibility statement**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the strategic 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
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

This responsibility statement was approved by the board of directors on 28 April 2016 and is signed on its behalf by:

**Peter Hambro**
Chairman
28 April 2016

**Andrey Maruta**
Chief Financial Officer
28 April 2016

# Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2015



**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 2015 and of the Group'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, including FRS 101 "Reduced Disclosure Framework"; 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 the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 37 and the parent company Balance Sheet, parent company Statement of Changes in Equity and the related notes 1 to 10. 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), including FRS 101 "Reduced Disclosure Framework".

**Emphasis of matter – Going concern**

As described in note 2 to the financial statements the Group is forecasting a breach of certain financial covenants relating to its borrowing facilities as at 30 June 2016 as well as a breach in the bank covenants of its associate, IRC Ltd, for which it has provided a guarantee. If a covenant breach arises and is not waived or amended by the debt holders, all of the Group's loan facilities would become repayable. The funds for this will not be available.

As disclosed in note 2 to the financial statements, In order to address this forecast covenant breach, the Group has commenced negotiations with its principal lenders to modify or temporarily waive the existing covenants.

Whilst we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, these conditions together with the other matters set out in note 2 of the financial statements indicate the existence of a material uncertainty which may give rise to significant doubt over the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or parent company were unable to continue as a going concern.

We describe below how the scope of our audit has responded to this risk. Our opinion is not modified in respect of this matter.

**Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group**

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the Group contained on page 118.

Aside from the matters disclosed in the emphasis of matter paragraph above, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 30-41 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 118 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

# Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2015

**Independence**

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

**Our assessment of risks of material misstatement**

Our risk assessment process continues throughout the audit and, as a result, we have removed 'Accounting for IRC Limited' as a risk of material misstatement following its deconsolidation from the Group on 7 August 2015. The remaining risks from our audit of the previous year's financial statements were assessed as continuing risks.

The procedures described in our response to each risk are not exhaustive and we have focused on those procedures that we consider address areas of judgement or subjectivity. As part of our audit of the group, in addition to substantive tests, we also test the design and implementation of internal controls over financial reporting in each of the risk areas.

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 (note 2.1)** | We consider the application of the going concern basis of accounting and the related disclosures to be a key risk due to the material uncertainty regarding the Group's ability to comply with certain of its covenants as at 30 June 2016. In particular, we consider that there is a high degree of judgement around whether the necessary covenant waivers will be obtained throughout the going concern assessment period.<br><br>There is therefore a risk that the going concern basis will be adopted inappropriately or that the disclosures are not adequate in the case of a material uncertainty.<br><br>As referenced in note 2 of the financial statements, management has highlighted the material uncertainty regarding the Group's ability to comply with certain of the covenants throughout the going concern period.<br><br>We have highlighted the level of uncertainty identified by the Directors in respect of going concern in the "emphasis of matter – going concern" paragraph above. | We challenged the key assumptions in management's forecast cash flows for the next 12 months (base case and downside scenarios) by:<br><br>– considering management's going concern paper which was presented to the Board, and the accompanying cash flow and covenant compliance forecasts for the going concern period. This paper included stress tests for a range of reasonably possible scenarios;<br>– comparing the forecast gold price used to the latest set of broker forecasts;<br>– using our mining specialists, VenmynDeloitte, to analyse the reasonableness of 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;<br>– assessing 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;<br>– agreeing the Group's committed debt facilities and hedging arrangements to supporting documentation;<br>– assessing the impact of the Group's continuing guarantee of IRC Ltd's debt with ICBC, through assessment of likelihood of the guarantee being called during the going concern period;<br>– reviewing the waiver as provided to IRC by their lenders;<br>– considering the Group's planned activities to address the identified covenant breach, which includes the renegotiation of the covenants in its borrowing facilities; and<br>– assessing whether the disclosures relating to going concern included in the financial statements are balanced, proportionate and clear.<br><br>We include above the conclusion of our review of the directors' statement in respect of the group's ability to continue as a going concern. |

| Risk | | How the scope of our audit responded to the risk |
|---|---|---|
| **Impairment of property, plant and equipment (notes 3.3 and 6)** | In line with IAS 36 management assessed at 31 December 2015 whether any internal or external indicators of impairment exist in relation to its property, plant and equipment. Management identified impairment indicators and therefore carried out an impairment test. These require significant judgement to be exercised.<br><br>As referenced in note 3.3 of the financial statements the recoverable value of property, plant and equipment is considered by management to be a critical accounting judgement and key source of estimate uncertainty.<br><br>The carrying value of property, plant and equipment on the balance sheet as at 31 December 2015 was $1,038m, (FY14: $1,143,m). No impairments were recognised during the year. Further details are provided in note 13 to the financial statements | We challenged management's significant assumptions used in the impairment testing for property, plant and equipment, and specifically the cash flow projections, by:<br>– using VenmynDeloitte to analyse management's long term mining plans which form the basis of their recoverable value models;<br>– considering the work of management's experts in producing the long term mining plans and considered their experience and qualifications;<br>– comparing the discount rates used by management with Deloitte's independent, expert calculations and the long term gold prices assumed with external forecasts;<br>– using our internal valuation specialists to perform an independent assessment of the discount rate used to facilitate benchmarking of management's rate;<br>– assessing management's allocation of the capital costs of the POX project between the cash generating units, for the purposes of the impairment tests;<br>– assessing whether headroom identified at the Group's cash generating units is indicative that a reversal of a previously recognised impairment is required;<br>– reviewing management's accounting paper with consideration of all of the assumptions supporting their conclusion; and<br>– testing capitalised expenditure during the year on a sample basis to assess whether the related costs qualify for capitalisation under the relevant accounting standards.<br><br>We also evaluated the sensitivity analysis performed by management and the adequacy and accuracy of disclosures relating to the impairment review. |

| Risk | | How the scope of our audit responded to the risk |
|---|---|---|
| **Inventory (notes 2.15, 6 and 15)** | 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.<br><br>As referenced on page 144 of the financial statements deferred stripping costs, which forms part of inventory, is considered by management as a critical accounting judgement and key source of estimation uncertainty.<br><br>The Group held current and non-current inventories of \$175m and \$51m respectively on the balance sheet as at 31 December 2015 (FY14: \$206m and \$42m respectively). A \$17m impairment (FY14 \$10m) was recognised in order to reduce the value of ore stockpiles to their net realisable value.<br><br>Further details are provided in notes 6 and 15 of the financial statements. | We challenged management's significant assumptions used in their assessment of the measurement and valuation of inventory as described below by:<br>– assessing the net realisable value of inventory by comparing the forecast gold price assumptions with external forecasts and using VenmynDeloitte to evaluate the processing cost assumptions;<br>– considering the detailed mine plans to verify whether stripping was correctly deferred and amortisation appropriately calculated. Furthermore, together with VenmynDeloitte, 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 assess whether the stripping relates to ore bodies that are scheduled to be mined in the future;<br>– attending inventory counts at key operating locations; and<br>– 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 VenmynDeloitte. |
| **Impairment of exploration and evaluation assets (notes 3.2, 6, and 12)** | The assessment of the prospectivity of the Group's exploration and evaluation assets requires significant judgement. There is a risk that costs will be incorrectly capitalised or that as a result of gold price being lower than forecasted. The Group's exploration and evaluation assets will not be progressed to development.<br><br>As referenced on page 143 of the financial statements recoverability of exploration and evaluation assets is considered by management as a critical accounting judgement and key source of estimation uncertainty.<br><br>The carrying value of the Group's exploration and evaluation assets on the balance sheet as at 31 December 2015 was \$69m (2014: \$97m). A \$37m impairment was recognised during the year (2014:\$14m). Further details are provided in note 12 to the financial statements | We challenged the outcome of management's review of its exploration and evaluation assets by:<br>– holding discussions with members of the Strategic Committee, and with local management responsible for directing exploration activities to corroborate the current activities and future intentions for the significant exploration projects;<br>– challenging management to justify the quantum of the impairment recognised, where applicable;<br>– challenging the recoverable value of assets where a preliminary sales agreement has been reached which is below the carrying value;<br>– discussing the Group's plans for specific projects with the Audit Committee; and<br>– performing detailed testing on the exploration and evaluation expenditure capitalised during the period and reviewed the licence conditions for any potential breaches.<br><br>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. |

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 94

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these 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.

In 2014 we chose underlying EBITDA as our basis of materiality. However, following management's decision to scale back production towards the end of 2015, EBITDA has reduced substantially. This reduction is not indicative of a reduction in the size or scale of the Group. Therefore we have concluded that EBITDA does not represent an appropriate basis for materiality in 2015. In the current economic environment the Group's value lies in its resource base rather than its profitability and we have therefore concluded that net assets is a more appropriate basis for materiality.

We determined materiality for the Group to be $12 million (2014: $13 million), which represents 2% of the Group's net assets. In 2014 materiality was based on 5% of the Group's adjusted EBITDA, which represented 2% of the Group's net assets.

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 $9 million (2014: $9 million).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$240,000 (2014: $260,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

## An overview of the scope of our audit

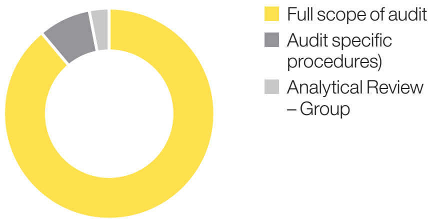
Similar to 2014, our Group audit scope focused primarily on the operating locations being the four operating mines, nine service entities, seven exploration assets and 17 finance or holding companies. All of the operating mines and service entities were subject to a full audit, whilst the exploration assets were subject to specified audit procedures, primarily testing of the capitalised spend on exploration activities and assessing for impairment. In addition, during 2015 IRC Limited was deemed no longer to be a subsidiary of the Group and instead was accounted for as an associate from 5 August onwards; as such we obtained limited scope reporting from Deloitte Hong Kong. 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 89% (2014: 90%) of the Group's total assets, 92% (2014: 92%) of the Group's inventory, 97% (2014: 99%) of the Group's revenue and 98% (2014: 97%) 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.

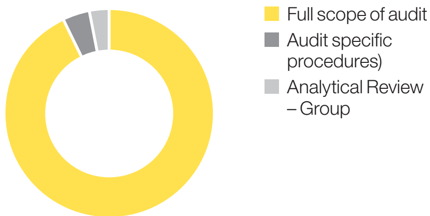
The Group audit team continued to follow a program of planned visits that was designed so that senior members of the Group team, including the Senior Statutory auditor, together with VenmynDeloitte, visited each of the operating gold mines and the Group's offices in Moscow and Blagoveschensk where the Group audit scope was focused.

The senior members of the group audit team, including the Senior Statutory auditor, met regularly throughout the year with senior members of the management team in London and the component auditors based in Moscow and Hong Kong.

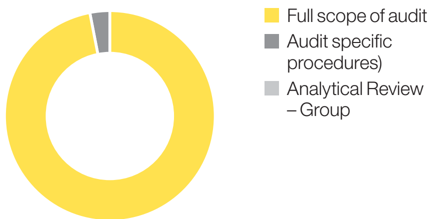
### Total assets



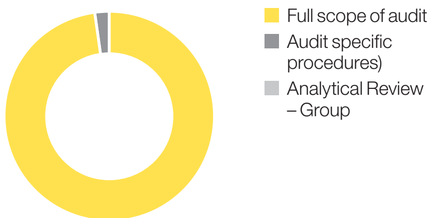

### Inventory




### Revenue




### EBITDA



### Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

### 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 part of the Corporate Governance Statement relating to the company's compliance with certain 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). 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 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

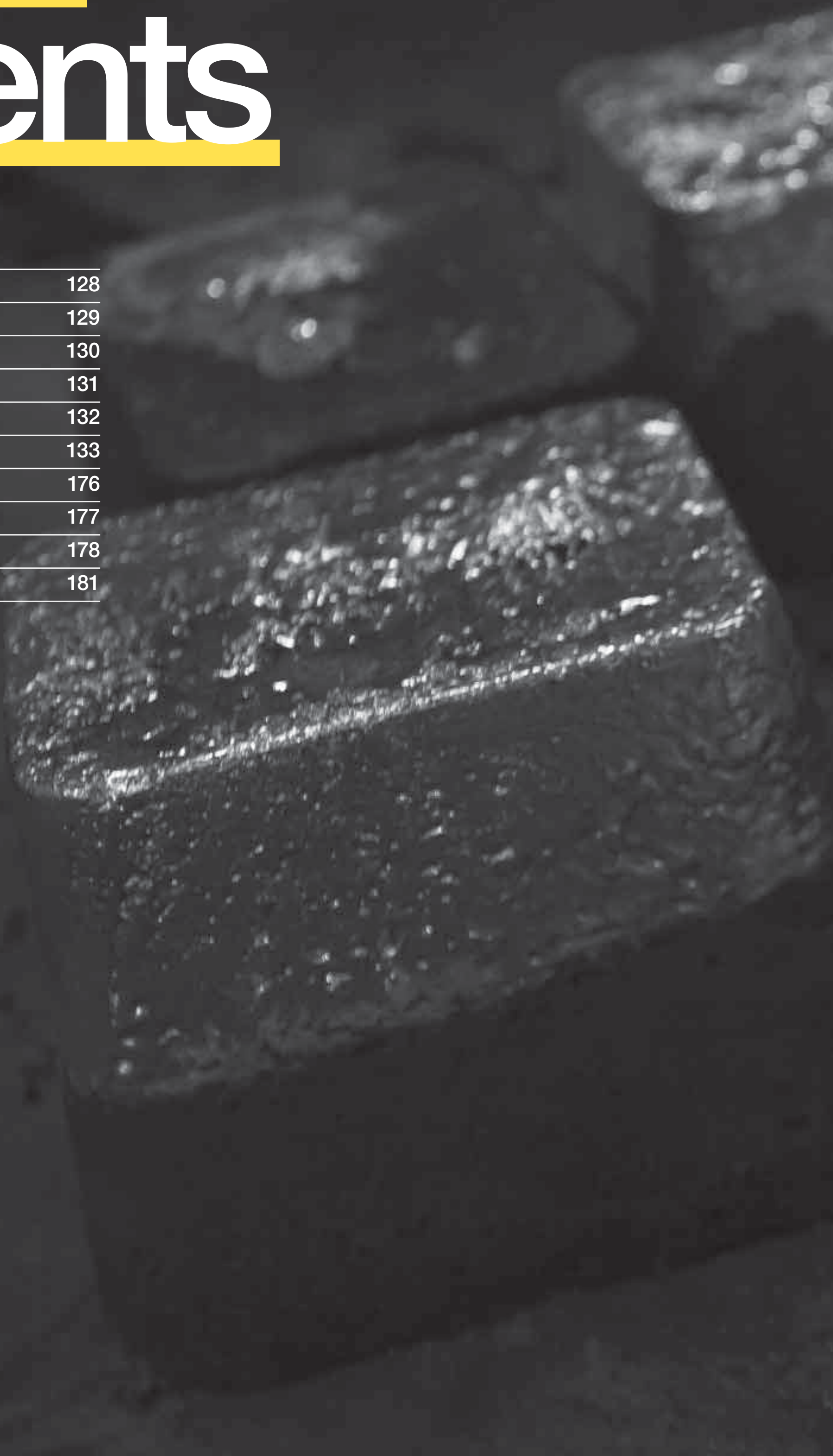
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies 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.

**Timothy Biggs, FCA**
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 April 2016

# Financial statements

## In this section





# Consolidated Income Statement

For the year ended 31 December 2015

| | note | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| Continuing operations | | | |
| Group revenue | 5 | 599,914 | 864,960 |
| Operating expenses | 6 | (619,635) | (816,211) |
| | | (19,721) | 48,749 |
| Share of net (loss)/ profit of associates | 14 | (60,422) | 2,990 |
| Operating (loss)/profit | | (80,143) | 51,739 |
| Investment income | 9 | 1,018 | 1,680 |
| Interest expense | 9 | (71,514) | (67,705) |
| Other finance gains | 9 | 9,064 | – |
| Loss before taxation | | (141,575) | (14,286) |
| Taxation | 10 | (48,879) | (167,871) |
| Loss for the period from continuing operations | | (190,454) | (182,157) |
| Discontinued operations | | | |
| Loss for the period from discontinued operations | 27 | (107,023) | (165,535) |
| Loss for the period | | (297,477) | (347,692) |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | | (238,759) | (260,664) |
| Continuing operations | | (190,155) | (184,296) |
| Discontinued operations | | (48,604) | (76,368) |
| Non-controlling interests | | (58,718) | (87,028) |
| Continuing operations | | (299) | 2,139 |
| Discontinued operations | | (58,419) | (89,167) |
| | | | |
| | | | |
| Loss per share | | | |
| Basic loss per share | 11 | | |
| From continuing operations | | (US$0.07) | (US$0.94) |
| From discontinued operations | | (US$0.02) | (US$0.39) |
| | | (US$0.09) | (US$1.33) |
| Diluted loss per share | 11 | | |
| From continuing operations | | (US$0.07) | (US$0.94) |
| From discontinued operations | | (US$0.02) | (US$0.39) |
| | | (US$0.09) | (US$1.33) |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Loss for the period | (297,477) | (347,692) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Revaluation of available-for-sale investments | 161 | (10) |
| Exchange differences: | | |
| Exchange differences on translating foreign operations | (4,121) | (17,928) |
| Transfer of foreign currency translation reserve to profit or loss on disposal of a foreign operation | 2,601 | – |
| Cash flow hedges: | | |
| Fair value gains/(losses) | 7,090 | (14,239) |
| Tax thereon | (1,418) | 2,848 |
| Transfer to revenue | (9,436) | (42,328) |
| Tax thereon | 1,888 | 8,466 |
| Other comprehensive loss for the period net of tax | (3,235) | (63,191) |
| Total comprehensive loss for the period | (300,712) | (410,883) |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | (241,916) | (318,146) |
| Non-controlling interests | (58,796) | (92,737) |
| | (300,712) | (410,883) |
| Total comprehensive loss for the period attributable to equity shareholders of Petropavlovsk PLC arises from: | | |
| Continuing operations | (195,360) | (239,120) |
| Discontinued operations | (46,556) | (79,026) |
| | (241,916) | (318,146) |

# Consolidated Balance Sheet

At 31 December 2015

| | note | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| Assets | | | |
| Non-current assets | | | |
| Exploration and evaluation assets | 12 | 68,993 | 97,533 |
| Property, plant and equipment | 13 | 1,038,343 | 1,143,032 |
| Prepayments for property, plant and equipment | | 1,841 | 10,671 |
| Investments in associates | 14 | 39,394 | 1,231 |
| Available-for-sale investments | | 271 | 112 |
| Inventories | 15 | 51,434 | 42,436 |
| Other non-current assets | | 175 | 274 |
| Deferred tax assets | 21 | – | 40 |
| | | 1,200,451 | 1,295,329 |
| Current assets | | | |
| Inventories | 15 | 175,222 | 206,498 |
| Trade and other receivables | 16 | 48,096 | 74,892 |
| Derivative financial instruments | 18 | 3,925 | 9,430 |
| Cash and cash equivalents | 17 | 28,239 | 48,080 |
| | | 255,482 | 338,900 |
| Assets of disposal groups classified as held for sale | 27, 28 | – | 629,853 |
| | | 255,482 | 968,753 |
| Total assets | | 1,455,933 | 2,264,082 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 19 | (96,567) | (66,713) |
| Current income tax payable | | (4,748) | (6,277) |
| Borrowings | 20 | (260,248) | (415,161) |
| | | (361,563) | (488,151) |
| Liabilities of disposal groups associated with assets classified as held for sale | 27,28 | – | (289,846) |
| | | (361,563) | (777,997) |
| Net current (liabilities)/ assets | | (106,081) | 190,756 |
| Non-current liabilities | | | |
| Borrowings | 20 | (378,030) | (562,643) |
| Derivative financial instruments | 18 | (14,684) | – |
| Deferred tax liabilities | 21 | (173,499) | (156,854) |
| Provision for close down and restoration costs | 22 | (17,184) | (21,217) |
| | | (583,397) | (740,714) |
| Total liabilities | | (944,960) | (1,518,711) |
| Net assets | | 510,973 | 745,371 |
| Equity | | | |
| Share capital | 23 | 48,874 | 3,041 |
| Share premium | | 518,142 | 376,991 |
| Own shares | 24 | (8,933) | (8,925) |
| Hedging reserve | | 3,096 | 4,947 |
| Convertible bond reserve | 20 | – | 48,235 |
| Share based payments reserve | | 280 | 3,283 |
| Other reserves | | (20,985) | (16,709) |
| Retained earnings | | (47,922) | 137,704 |
| Equity attributable to the shareholders of Petropavlovsk PLC | | 492,552 | 548,567 |
| Non-controlling interests | | 18,421 | 196,804 |
| Total equity | | 510,973 | 745,371 |

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 28 April 2016 and signed on their behalf by

**Peter Hambro**
Director

**Andrey Maruta**
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

| | | Total attributable to equity holders of Petropavlovsk PLC | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | note | Share capital US$'000 | Share premium US$'000 | Merger reserve US$'000 | Own shares US$'000 | Convertible bond Reserve US$'000 | Share based payments reserve US$' 000 | Hedging reserve US$'000 | Other reserves[a] US$'000 | Retained earnings US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
| Balance at 1 January 2014 | | 3,041 | 376,991 | 19,265 | (8,925) | 48,235 | 11,096 | 49,807 | (89) | 360,999 | 860,420 | 251,917 | 1,112,337 |
| Total comprehensive loss | | – | – | – | – | – | – | (44,860) | (12,622) | (260,664) | (318,146) | (92,737) | (410,883) |
| Loss for the period | | – | – | – | – | – | – | – | – | (260,664) | (260,664) | (87,028) | (347,692) |
| Other comprehensive loss | | – | – | – | – | – | – | (44,860) | (12,622) | – | (57,482) | (5,709) | (63,191) |
| Share based payments | | – | – | – | – | – | (7,280) | – | – | 12,153 | 4,873 | – | 4,873 |
| Vesting of awards within IRC LTIP | | – | – | – | – | – | (533) | – | – | 533 | – | – | – |
| Issue of ordinary shares by subsidiary | | – | – | – | – | – | – | – | – | 1,314 | 1,314 | 38,076 | 39,390 |
| Other transaction with non-controlling interests | | – | – | – | – | – | – | – | – | 106 | 106 | (452) | (346) |
| Transfer to retained earnings | | – | – | (19,265) [b] | – | – | – | – | (3,998) | 23,263 | – | – | – |
| Balance at 1 January 2015 | | 3,041 | 376,991 | – | (8,925) | 48,235 | 3,283 | 4,947 | (16,709) | 137,704 | 548,567 | 196,804 | 745,371 |
| Total comprehensive loss | | – | – | – | – | – | – | (1,851) | (1,306) | (238,759) | (241,916) | (58,796) | (300,712) |
| Loss for the period | | – | – | – | – | – | – | – | – | (238,759) | (238,759) | (58,718) | (297,477) |
| Other comprehensive loss | | – | – | – | – | – | – | (1,851) | (1,306) | – | (3,157) | (78) | (3,235) |
| Share based payments | 29 | – | – | – | – | – | 17 | – | – | – | 17 | – | 17 |
| Deferred share awards | | – | – | – | – | – | 280 | – | – | – | 280 | – | 280 |
| Right issue and settlement of the Existing Bonds [c], [d] | | 45,833 | 141,151 | – | (8) | (48,235) | – | – | – | 48,235 | 186,976 | – | 186,976 |
| Issue of ordinary shares by subsidiary | | – | – | – | – | – | – | – | – | (2,487) | (2,487) | 51,921 | 49,434 |
| Other transaction with non-controlling interests | | – | – | – | – | – | – | – | 866 | 249 | 1,115 | 243 | 1,358 |
| Disposal of subsidiaries [e] | | – | – | – | – | – | (3,300) | – | (866) | 4,166 | – | (171,751) | (171,751) |
| Transfer to retained earnings | | – | – | – | – | – | – | | (2,970) | 2,970 | – | – | – |
| Balance at 31 December 2015 | | 48,874 | 518,142 | – | (8,933) | – | 280 | 3,096 | (20,985) | (47,922) | 492,552 | 18,421 [f] | 510,973 |

*(a) Including translation reserve of US$(18.2) million (31 December 2014: US$(16.7) million).*

*(b) 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 (note 27).*

*(c) Note 2.*

*(d) Upon settlement of the Existing Bonds, the associated US$48 million convertible bond reserve was transferred to retained earnings.*

*(e) Notes 27, 28.*

*(f) IRC Limited ('IRC') was the only non-wholly owned subsidiary of the Group that had a material non-controlling interest (note 27).*

# Consolidated Cash Flow Statement

For the year ended 31 December 2015

| | note | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 25 | 208,841 | 245,407 |
| Interest paid | | (72,174) | (77,615) |
| Income tax paid | | (33,287) | (34,641) |
| Net cash from operating activities | | 103,380 | 133,151 |
| Cash flows from investing activities | | | |
| Proceeds from disposal of subsidiaries, net of cash disposed and liabilities settled | 28 | 6,485 | 2,699 |
| Proceeds from disposal of the Group's interests in associates | 14 | 1,000 | – |
| Purchase of property, plant and equipment [(a)] | | (58,804) | (164,223) |
| Exploration expenditure [(a)] | | (18,854) | (34,726) |
| Proceeds from disposal of property, plant and equipment | | 847 | 5,141 |
| Loans granted | | (47) | (89) |
| Repayment of amounts loaned to other parties | | 42 | 586 |
| Interest received | | 2,183 | 3,351 |
| Dividends received from joint venture | | 917 | – |
| Net cash used in investing activities | | (66,231) | (187,261) |
| Cash flows from financing activities | | | |
| Proceeds from issue of ordinary shares capital, net of transaction costs | | 156,163 | – |
| Proceeds from issue of ordinary shares by IRC, net of transaction costs | | 49,434 | 38,870 |
| Proceeds from borrowings [(b)] | | 82,885 | 154,007 |
| Repayments of borrowings [(b)] | | (304,178) | (235,050) |
| Debt transaction costs paid in connection with ICBC facility | | (72) | (467) |
| Debt transaction costs paid in connection with bank loans | | (1,896) | – |
| Restricted bank deposit placed in connection with ICBC facility | | (1,000) | (21,250) |
| Refinancing costs | 2 | (34,418) | (7,760) |
| Funds received under investment agreement with the Russian Ministry of Far East Development | 33 | 15,093 | – |
| Guarantee fee in connection with ICBC facility | | 2,169 | – |
| Dividends paid to non-controlling interests | | (536) | (346) |
| Purchase of own shares | | (8) | – |
| Net cash used in financing activities | | (36,364) | (71,996) |
| Net increase/(decrease) in cash and cash equivalents in the period | | 785 | (126,106) |
| Effect of exchange rates on cash and cash equivalents | | (5,270) | (33,092) |
| Cash and cash equivalents at beginning of period | 17 | 48,080 | 170,595 |
| Cash and cash equivalents re-classified as assets held for sale at beginning of the period | 27,28 | 55,459 | 92,142 |
| Cash and cash equivalents re-classified as assets held for sale at disposal | 27 | (70,815) | – |
| Cash and cash equivalents re-classified as assets held for sale at end of the period | 27,28 | – | (55,459) |
| Cash and cash equivalents at end of period | 17 | 28,239 | 48,080 |

*(a) Including US$45.1 million related to discontinued operations (year ended 31 December 2014: US$102.1 million) (note 27).*

*(b) Including US$62.5 million proceeds from borrowings (year ended 31 December 2014: US$154.0 million) and US$36.2 million repayments of borrowings (year ended 31 December 2014: US$81.1 million) related to discontinued operations (note 27).*

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015



## 1. General information

Petropavlovsk PLC (the 'Company') is a company incorporated and registered in England and Wales. The address of the registered office is 11 Grosvenor Place, London SW1X 7HH.

## 2. Significant accounting policies

### 2.1. Basis of preparation and presentation

The consolidated financial statements of Petropavlovsk PLC and its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial investments, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### Going concern

The Group monitors and manages its liquidity risk on an ongoing basis to ensure that it has access to sufficient funds to meet its obligations. Cash forecasts are produced regularly based on a number of inputs including, but not limited to, forecast commodity prices and impact of hedging arrangements, Group mining plan, forecast expenditure and debt repayment schedules. Sensitivities are run for different scenarios including, but not limited to, changes in commodity prices, cost inflation, different production rates from the Group's producing assets and the timing of expenditure on development projects. This is done to identify risks to liquidity and covenant compliance and enable management to develop appropriate and timely mitigation strategies. The Group meets its capital requirements through a combination of sources including cash generated from operations and external debt.

The Group performed an assessment of the forecast cash flows and covenant compliance in relation to bank facilities for the period of 12 months from the date of approval of the 2015 Annual Report and Accounts. As at 31 December 2015, the Group had sufficient liquidity headroom and complied with related financial covenants. The Group's projections demonstrate that although the Group expects to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule on 20 June 2016 and a breach of certain financial covenants, being leverage and interest service ratios, within the bank facilities as at the next measurement date, being 30 June 2016, is likely to arise.

In view of the above, the Group is in negotiations with its principal lenders with a view to obtaining satisfactory modifications and temporary waivers regarding the existing covenants ahead of the testing period and the current repayment schedule ("Debt Restructuring"). The Group has received written comfort from their principal lenders intending to support the Debt Restructuring. If an agreement with the Group's principal lenders in relation to the Debt Restructuring cannot be reached, and as a result a covenant breach and/ or missed debt repayment occurs, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$276.25 million as at 31 December 2015. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. The Directors of IRC have forecast that certain financial covenants under the ICBC facility are likely to be breached at the next testing date of 30 June 2016 and IRC will not have sufficient liquidity to facilitate a debt repayment of US$21.5 million due on 21 June 2016, which will cause the related facility to become immediately due and payable. However, IRC has obtained from ICBC approved waivers of the financial covenants until and inclusive of 31 December 2017, conditional, among others, on approval of the Debt Restructuring by the Group's principal lenders, a result of which is that approval of the Debt Restructuring must be completed and approved by 20 June 2016 to facilitate IRC's debt repayment schedule being met.

The risk that the Group will be unable to achieve appropriate mitigating actions prior to 20 June 2016 or secure an appropriate relaxation or amendment of its financial covenants in order to avoid a breach of covenants is a material uncertainty which may cast significant doubt upon the Company's ability to continue to apply the going concern basis of accounting.

Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation, after taking into account the aforementioned factors, that the Group will 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 2015 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

#### The Refinancing

On 2 February 2015, the Group announced a proposed Refinancing which was completed on 18 March 2015. The Refinancing consisted of the following:

- Rights issue pursuant to which 3,102,923,272 new Ordinary Shares were issued at subscription price of £0.05 per Ordinary Share as set out below:
  - 2,114,460,594 Ordinary Shares were issued for cash consideration raising £105.7 million (equivalent to US$156.2 million) gross cash proceeds; and
  - 988,462,678 Ordinary Shares were issued in exchange for the Existing Bonds as part of settlement of the Existing Bonds (please refer to the details set out below).
- Issue of the new convertible bonds:

  On 18 March 2015, the Group issued US$100 million convertible bonds due on 18 March 2020 (the 'New Bonds'). The New Bonds were issued pursuant to the completion of the exchange offer of the Existing Bonds as set out below.

  The New Bonds were issued by the Group's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The New Bonds carry a coupon of 9.00% payable quarterly in arrears and are convertible into redeemable preference shares of Petropavlovsk 2010 Limited which are guaranteed by the Company and will be exchangeable immediately upon issuance for Ordinary Shares in the Company.

  The conversion price has been set at £0.0826 per Ordinary Share, subject to adjustment for certain events, and the conversion exchange rate has been fixed at US$1.5171: £1. The New 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 18 March 2015.

– Settlement of the Existing Bonds:

The Existing Bonds with a par value of US$310.5 million as at 31 December 2014 (note 20) were settled as follows:

| | Par value US$ million |
|---|---|
| Portion settled in cash from the net cash proceeds of the Rights Issue | 135.5 |
| Portion settled in equity through the debt-for-equity exchange commitments | 75.0 |
| Portion settled through the issuance of the New Bonds | 100.0 |
| Par value of the Existing Bonds | 310.5 |

– Bank Waivers:

The Group obtained waivers and relaxation of certain financial covenants for the period until 31 December 2015, inclusive.

The aggregate transaction costs of US$42.8 million, out of which US$7.8 million were paid as at 31 December 2014, were primarily allocated to equity (US$33.4 million) and the New Bonds (US$5.1 million).

**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 were effective for annual periods beginning on or after 1 January 2015
and are set out below have been adopted:

- Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans – Employee Contributions'
- Annual improvements to IFRSs: 2010-2012
- Annual improvements to IFRSs: 2011-2013

These standards, amendments, and interpretations have not had a significant impact on amounts reported, presentation or disclosure in these consolidated financial statements but may impact the accounting for future transactions and arrangements.

**New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2016 and not early adopted**

At the date of approval of these 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 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. | 1 January 2018 |
| IFRS 14 'Regulatory Deferral Accounts' [(a)] | 1 January 2016 |
| IFRS 15 'Revenue from contracts with customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations. | 1 January 2017 |
| IFRS 16 'Leases' replaces IAS 17 'Accounting for Leases' and related interpretations. | 1 January 2019 |
| Amendments to IAS 1 'Presentation of Financial Statements' | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' | 1 January 2016 |
| Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants' | 1 January 2016 |
| Amendments to IAS 27 'Equity Method in Separate Financial Statements' | 1 January 2016 |
| Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' | 1 January 2016 |
| Amendments to IFRS 11 'Accounting for Acquisition of Interests in Joint Operations' | 1 January 2016 |
| Annual improvements to IFRSs: 2012-2014 Cycle | 1 July 2016 |

*(a) IFRS 14 is not applicable to the Group as the Group is not a first-time adopter of IFRSs.*

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 in future reporting periods, except that IFRS 9 will impact both measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the impact of the aforementioned standards until a detailed review has been completed.

#### 2.3. Basis of consolidation

These consolidated financial statements consist of the financial statements of the Company and its subsidiaries as at the balance sheet date. Subsidiaries are all entities over which the Group has control.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if, and only if, it has all of the following:

- power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary);
- exposure, or rights, to variable returns from its involvement with the subsidiary; and
- the ability to use its power over the subsidiary to affect its returns.

When the Group has less than a majority of the voting rights of a subsidiary or similar rights of a subsidiary, it considers all relevant facts and circumstances in assessing whether it has power over the subsidiary including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Company reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. The recognised income and expense are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### 2.4. 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.

#### 2.5. 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.

#### 2.6. 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.

### 2.7. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, which is the Group's presentation currency. The functional currency of the Company is the US Dollar.

The rates of exchange used to translate balances from other currencies into US Dollars were as follows (currency per US Dollar):

| | As at 31 December 2015 | Average year ended 31 December 2015 | As at 31 December 2014 | Average year ended 31 December 2014 |
|---|---|---|---|---|
| GB Pounds Sterling (GBP : US$) | 0.68 | 0.65 | 0.64 | 0.61 |
| Russian Rouble (RUB : US$) | 72.88 | 61.30 | 56.26 | 38.44 |

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.

### 2.8. Intangible assets

Exploration and evaluation expenditure and mineral rights acquired

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, are capitalised and recorded on the balance sheet within intangible assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling pre-feasibility and feasibility studies; and
- costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made.

Exploration and evaluation expenditure capitalised and mining rights within intangible assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

### 2.9. Property, plant and equipment

#### Mine development costs

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.

Mine development costs are not depreciated, except for 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.

#### Mining assets

Mining assets are stated at cost less accumulated depreciation. Mining assets include the cost of acquiring and developing mining assets and mineral rights, buildings, vehicles, plant and machinery and other equipment located on mine sites and used in the mining operations.

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. This 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**
Non-mining assets are stated at cost less accumulated depreciation. Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

**Capital construction in progress**
Capital construction in progress is stated at cost. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. Capital construction in progress is not depreciated.

**Depreciation**
Property, plant and equipment are depreciated using a units of production method as set out above or on a straight-line basis based on estimated useful lives. 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 |

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.

**2.10. 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.

**2.11. 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.

### 2.12. 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.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy set out above.

### 2.13. Financial instruments

Financial instruments recognised in the balance sheet include cash and cash equivalents, other investments, trade and other receivables, borrowings, derivatives, and trade and other payables.

Financial instruments are initially measured at fair value when the Group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit or loss. The subsequent measurement of financial instruments is dealt with below.

#### Financial assets

Financial assets are classified into the following specified categories: ‘financial assets at fair value through profit or loss’, ‘held-to-maturity investments’, ‘available-for-sale financial assets’ and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised at trade-date, the date on which the Group commits to purchase the asset. The Group does not hold any financial assets which meet the definition of ‘held-to-maturity investments’.

#### Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included within non-current assets unless the investment matures or management intends to dispose of them within 12 months of the balance sheet date. Available-for-sale financial assets are initially measured at cost and subsequently carried at fair value. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of other reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to the income statement.

#### Loans and receivables

Loans and receivables are non-derivative financial assets fixed or determinable payments that are not quoted on an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Effective interest method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and are measured at cost which is deemed to be fair value as they have a short-term maturity.

#### Trade receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Impairment of trade receivables is established when there is objective evidence as a result of a loss event that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is recognised in the income statement.

#### Other investments

Listed investments and unlisted equity investments, other than investments in subsidiaries, joint ventures and associates, are classified as available-for-sale financial assets and subsequently measured at fair value. Fair values for unlisted equity investments are estimated using methods reflecting the economic circumstances of the investee. Equity investments for which fair value cannot be measured reliably are recognised at cost less impairment. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to the income statement as 'gains and losses from investment securities'.

**Financial liabilities**
Financial liabilities, other than derivatives, are measured on initial recognition at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

**Borrowings**
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**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.

**Hedge accounting**
The Group designates certain derivative financial instruments as hedging relationships. For the purposes of hedge accounting, hedging relationships may be of three types:

– Fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability;
– Cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; and
– Hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity.

Currently the Group only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The fair value gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is reclassified to profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

**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.

### 2.14. 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.

### 2.15. 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 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 2.11.

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.

### 2.16. Leases
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.

### 2.17. Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable, stated at the invoiced value net of discounts and value added tax.

#### Sales of gold and silver
The majority of the Group's revenue is derived from the sale of refined gold and silver, the latter being a by-product of gold production. Revenue from the sale of gold and silver is recognised when:

- the risks and rewards of ownership are transferred to the buyer;
- the Group retains neither a continuing involvement nor control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the Group.

#### Other revenue
Other revenue is recognised as follows:

- revenue from service contracts is recognised when the services are rendered;
- revenue from sales of goods is recognised when the goods are delivered to the buyer and the risks and benefits associated with ownership are transferred to the buyer; and
- rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

### 2.18. 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) or if active development is suspended or ceases.

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.

### 2.19. 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.

**2.20. 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) and the internally used Russian Classification System, adjusted to conform with the mining activity to be undertaken under the Group mining plan. Both the JORC Code and the Russian Classification System require the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method (note 13), impairment charges (note 6) and for forecasting the timing of the payment of close down and restoration costs (note 22). 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 (note 6);
– 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 (note 22); and
– carrying value of deferred tax assets and liabilities (note 21) 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. Details of exploration and evaluation assets are set out in note 12.

**3.3. Impairment and impairment reversals**
The Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets are impaired.

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 and/or impairment reversal conclusions, which could have a significant effect on the consolidated financial statements. Details of impairment and/or impairment reversal are set out in note 6.

**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. Details of deferred stripping costs capitalised are set out in note 15.

**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.

Details of provision for close down and restoration costs are set out in note 22.

**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. Details of tax charge for the year are set out in note 10.

**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.

Details of tax charge for the year and deferred tax balances are set out in notes 10 and 21.

**3.8. Determination of control of subsidiaries and consolidation of entities**
Judgement is required to determine when the Group has control, which requires an assessment of the relevant activities (those relating to the operating and capital decisions of the arrangement, such as: the approval of the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel or service providers of the operations) and when the decisions in relation to those activities are under the control of the Group or require unanimous consent.

Differing conclusions around these judgements, may materially impact how these businesses are presented in the consolidated financial statements – under the full consolidation method, equity method or proportionate consolidation method.

In determining whether the Group controlled IRC until it was disposed on 7 August 2015 (note 27), the Group has taken the following into specific consideration:

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; and
– the existence of a substantial guarantee of IRC's debt.

The Group's principal subsidiaries and other significant investments are set out in note 36.

**4. Segment information**

The Group's reportable segments under IFRS 8, which are aligned with its operating locations, 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; and
– Alluvial operations segment comprising various alluvial gold operations which are engaged in gold production and field exploration.

Corporate and Other segment amalgamates 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 financial performance of the segments is principally evaluated with reference to operating profit less foreign exchange impacts.

## 4. Segment information continued

| 2015 | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Alluvial operations US$'000 | Corporate and other US$'000 | Consolidated US$' 000 |
|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | |
| Gold [(a)] | 253,914 | 61,002 | 71,044 | 181,687 | – | – | 567,647 |
| Silver | 641 | 168 | 84 | 149 | – | – | 1,042 |
| Other external revenue | – | – | – | – | – | 31,225 | 31,225 |
| Inter-segment revenue | – | – | 1,284 | 433 | – | 130,042 | 131,759 |
| Intra-group eliminations | – | – | (1,284) | (433) | – | (130,042) | (131,759) |
| Total Group revenue from external customers | 254,555 | 61,170 | 71,128 | 181,836 | – | 31,225 | 599,914 |
| Operating expenses and income | | | | | | | |
| Operating cash costs | (135,926) | (45,082) | (65,434) | (115,314) | 1,006 | (32,159) | (392,909) |
| Depreciation | (45,864) | (12,344) | (18,195) | (50,819) | (1,388) | (494) | (129,104) |
| Central administration expenses | – | – | – | – | – | (30,419) | (30,419) |
| Reversal of impairment of mining assets | – | – | – | – | – | – | – |
| Impairment of exploration and evaluation assets | – | (2,324) | (140) | – | – | (34,978) | (37,442) |
| Impairment of ore stockpiles | (11,945) | 884 | (6,065) | (299) | – | – | (17,425) |
| Impairment of investments in associates | – | – | – | – | – | – | – |
| Loss on disposal of subsidiaries | – | – | – | – | (384) | – | (384) |
| Total operating expenses [(b)] | (193,735) | (58,866) | (89,834) | (166,432) | (766) | (98,050) | (607,683) |
| Share of net loss of associates | – | – | – | – | – | (60,422) | (60,422) |
| Segment result | 60,820 | 2,304 | (18,706) | 15,404 | (766) | (127,247) | (68,191) |
| Foreign exchange losses | | | | | | | (11,952) |
| Operating loss | | | | | | | (80,143) |
| Investment income | | | | | | | 1,018 |
| Interest expense | | | | | | | (71,514) |
| Other finance gains | | | | | | | 9,064 |
| Taxation | | | | | | | (48,879) |
| Loss for the period from continuing operations | | | | | | | (190,454) |
| Segment assets | 407,004 | 40,357 | 425,029 | 447,161 | – | 130,690 | 1,450,241 |
| Segment liabilities | (21,005) | (6,632) | (10,136) | (36,459) | – | (58,951) | (133,183) |
| Deferred tax – net | | | | | | | (173,499) |
| Unallocated cash | | | | | | | 5,193 |
| Loans given | | | | | | | 499 |
| Borrowings | | | | | | | (638,278) |
| Net assets | | | | | | | 510,973 |
| Other segment information | | | | | | | |
| Additions to non-current assets: | | | | | | | |
| Exploration and evaluation expenditure capitalised within intangible assets | 450 | 44 | 3,711 | 3,441 | – | 1,530 | 9,176 |
| Other additions to intangible assets | | | | | | | |
| Capital expenditure | 15,171 | 816 | 4,520 | 9,611 | – | 962 | 31,080 |
| Other items capitalised [(c)] | (1,350) | (61) | (836) | (1,999) | – | – | (4,246) |
| Average number of employees | 1,760 | 989 | 937 | 1,510 | – | 3,273 | 8,469 |

*(a) Including US$9.4 million contribution from the cash flow hedge.*

*(b) Operating expenses less foreign exchange losses.*

*(c) Close down and restoration costs (note 13).*

### 4. Segment information continued

| 2014 | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Alluvial operations US$'000 | Corporate and other US$'000 | Consolidated US$' 000 |
|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | |
| Gold [d] | 341,445 | 89,059 | 112,988 | 239,750 | 38,500 | – | 821,742 |
| Silver | 2,438 | 680 | 255 | 277 | 105 | – | 3,755 |
| Other external revenue | – | – | – | – | – | 39,463 | 39,463 |
| Inter-segment revenue | 658 | – | 4,117 | 1,016 | – | 196,603 | 202,394 |
| Intra-group eliminations | (658) | – | (4,117) | (1,016) | – | (196,603) | (202,394) |
| Total Group revenue from external customers | 343,883 | 89,739 | 113,243 | 240,027 | 38,605 | 39,463 | 864,960 |
| Operating expenses and income | | | | | | | |
| Operating cash costs | (212,393) | (60,205) | (87,551) | (149,199) | (28,555) | (40,078) | (577,981) |
| Depreciation | (40,081) | (21,790) | (18,450) | (57,863) | (4,883) | (901) | (143,968) |
| Central administration expenses | – | – | – | – | – | (38,185) | (38,185) |
| Reversal of impairment of mining assets | – | – | – | 28,935 | – | – | 28,935 |
| Impairment of exploration and evaluation assets | – | (3,463) | (128) | – | (390) | (18,053) | (22,034) |
| Impairment of ore stockpiles | (7,144) | 3,401 | 3,186 | (9,587) | – | – | (10,144) |
| Impairment of investments in associates | – | – | – | – | – | (9,697) | (9,697) |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell | – | – | – | – | (11,867) | – | (11,867) |
| Total operating expenses [e] | (259,618) | (82,057) | (102,943) | (187,714) | (45,695) | (106,914) | (784,941) |
| Share of net profit of associates | – | – | – | – | – | 2,990 | 2,990 |
| Segment result | 84,265 | 7,682 | 10,300 | 52,313 | (7,090) | (64,461) | 83,009 |
| Foreign exchange losses | | | | | | | (31,270) |
| Operating profit | | | | | | | 51,739 |
| Investment income | | | | | | | 1,680 |
| Interest expense | | | | | | | (67,705) |
| Taxation | | | | | | | (167,871) |
| Loss for the period from continuing operations | | | | | | | (182,157) |
| Segment assets | 484,141 | 62,564 | 450,545 | 462,947 | 14,652 | 154,868 | 1,629,717 |
| Segment liabilities | (16,403) | (5,851) | (9,311) | (16,669) | (757) | (45,973) | (94,964) |
| Deferred tax – net | | | | | | | (156,814) |
| Unallocated cash | | | | | | | 18,262 |
| Loans given | | | | | | | 862 |
| Borrowings | | | | | | | (977,804) |
| Net assets of disposal group classified as held for sale | | | | | | | 326,112 |
| Net assets | | | | | | | 745,371 |
| Other segment information | | | | | | | |
| Additions to non-current assets: | | | | | | | |
| Exploration and evaluation expenditure capitalised within intangible assets | 1,143 | 475 | 6,774 | 7,218 | 41 | 3,480 | 19,131 |
| Other additions to intangible assets | – | – | – | – | 789 | – | 789 |
| Capital expenditure | 43,327 | 815 | 30,509 | 20,708 | 1,721 | 2,214 | 99,294 |
| Other items capitalised [f] | 10,935 | (1,898) | (4,992) | (6,113) | – | – | (2,068) |
| Average number of employees | 1,737 | 1,006 | 916 | 1,411 | 464 | 3,998 | 9,532 |

*(d) Including US$42.3 million contribution from the cash flow hedge.*

*(e) Operating expenses less foreign exchange losses.*

*(f) Being net of interest capitalised and close down and restoration costs (note 13).*

### 4. Segment information continued

#### Entity wide disclosures

*Revenue by geographical location* [(a)]

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Russia and CIS | 599,686 | 864,425 |
| Other | 228 | 535 |
| | 599,914 | 864,960 |

*(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)]

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Russia | 1,199,941 | 1,294,893 |
| Other | 64 | 10 |
| | 1,200,005 | 1,294,903 |

*(b) Excluding financial instruments and deferred tax assets.*

*Information about major customers*
During the years ended 31 December 2015 and 2014, 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 2015 are revenues of US$571 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$366 million to Sberbank of Russia and US$205 million to VTB (2014: US$815 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$527 million to Sberbank of Russia and US$288 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*

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Sales of goods | 585,643 | 850,228 |
| Rendering of services | 13,515 | 13,489 |
| Rental income | 756 | 1,243 |
| | 599,914 | 864,960 |
| Investment income | 1,018 | 1,680 |
| | 600,932 | 866,640 |

*Discontinued operations*

| | Period to 7 August 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Sales of goods | 49,180 | 117,972 |
| Rendering of services | 1,102 | 4,442 |
| | 50,282 | 122,414 |
| Investment income | 1,163 | 1,667 |
| | 51,445 | 124,081 |

### 6. Operating expenses and income

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Net operating expenses [a] | 522,013 | 721,949 |
| Impairment of exploration and evaluation assets | 37,442 | 22,034 |
| Reversal of impairment of mining assets | – | (28,935) |
| Impairment of ore stockpiles [a] | 17,425 | 10,144 |
| Impairment of investments in associates | – | 9,697 [b] |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell | – | 11,867 [c] |
| Central administration expenses [a] | 30,419 | 38,185 |
| Foreign exchange losses | 11,952 | 31,270 |
| Loss on disposal of subsidiaries [c] | 384 | – |
| | 619,635 | 816,211 |

*(a) As set out below.*

*(b) Taking into consideration the alternatives sought to realise the value of investments in associates through sale and indicative purchase consideration from the potential buyers, respective impairment provision was recognised against the associated carrying values.*

*(c) Note 28.*

#### Net operating expenses

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Depreciation | 129,104 | 143,968 |
| Staff costs | 70,632 | 109,341 |
| Materials | 131,914 | 154,099 |
| Fuel | 55,835 | 78,798 |
| External services | 29,004 | 22,608 |
| Mining tax | 33,138 | 47,711 |
| Electricity | 25,008 | 35,839 |
| Smelting and transportation costs | 1,079 | 3,012 |
| Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production | (11,777) | 46,223 |
| Taxes other than income | 7,928 | 14,113 |
| Insurance | 7,244 | 6,528 |
| Professional fees | 554 | 958 |
| Office costs | 304 | 674 |
| Operating lease rentals | 645 | 914 |
| Business travel expenses | 1,541 | 2,199 |
| Provision for impairment of trade and other receivables | 1,261 | (1,056) |
| Bank charges | 855 | 550 |
| Goods for resale | 12,816 | 17,300 |
| Other operating expenses | 24,514 | 40,134 |
| Other expenses /(income) | 414 | (1,964) |
| | 522,013 | 721,949 |

## 6. Operating expenses and income continued

### Central administration expenses

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Staff costs | 18,908 | 22,278 |
| Professional fees | 2,040 | 3,616 |
| Insurance | 1,191 | 1,048 |
| Operating lease rentals | 1,900 | 1,772 |
| Business travel expenses | 1,611 | 1,598 |
| Office costs | 544 | 838 |
| Other | 4,225 | 7,035 |
| | 30,419 | 38,185 |

### Impairment charges

*Impairment of mining assets*
The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no impairment was required as at 31 December 2015.

The estimated recoverable amounts demonstrated improvements compared to the previous year as a result of cost optimization measures undertaken by the Group in response to the declining gold price environment, increase in the Group's non-refractory mineable reserves and effect of the Russian Rouble depreciation on operating cash costs.

Having considered the excess of estimated recoverable amounts over the carrying values of the associated assets on the balance sheet as at 31 December 2015, the Directors concluded that no impairment was required as at 31 December 2015.

The forecast future cash flows are based on the Group's current mining plan. 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 2015 | Year ended 31 December 2014 |
|---|---|---|
| Long-term gold price | US$1,150/oz | US$1,200/oz |
| Discount rate [a] | 8% | 9.5% |
| RUB/US$ exchange rate | RUB65.0/US$ | RUB60.0/US$ |

*(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 10.1% (2014: 11.8%)*

*Impairment of exploration and evaluation assets*
The Group performed a review of its exploration and evaluation assets and recorded the following impairment charges:

- Taking into consideration the alternative means to realising value from the Visokoe asset (note 12) through a sale, and referring to the indicative aggregate consideration from the potential buyer of US$20 million for Visokoe asset and equity investment in Verkhnetisskaya Ore Mining Company (note 14), a US$32.5 million impairment charge has been recorded against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets;
- US$4.0 million impairment charges have been recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various license areas, located in the Amur region; and
- A further US$0.9 million impairment charge has been recorded against exploration and evaluation assets in Guyana.

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

| | Year ended 31 December 2015 | | | Year ended 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | Pre-tax impairment charge/ (reversal of impairment) US$'000 | Taxation US$'000 | Post-tax impairment charge/ (reversal of impairment) US$'000 | Pre-tax impairment charge/ reversal of impairment US$'000 | Taxation US$'000 | Post-tax impairment charge/ reversal of impairment US$'000 |
| Pokrovskiy | (884) | 177 | (707) | (3,401) | 680 | (2,721) |
| Pioneer | 11,945 | (2,390) | 9,555 | 7,144 | (1,429) | 5,715 |
| Malomir | 6,065 | (1,213) | 4,852 | (3,186) | 637 | (2,549) |
| Albyn | 299 | (60) | 239 | 9,587 | (1,917) | 7,670 |
| | 17,425 | (3,486) | 13,939 | 10,144 | (2,029) | 8,115 |

**7. Auditor's remuneration**

The Group, including its overseas subsidiaries, obtained the following services from the Company's auditor and their associates:

| | 2015 US$'000 | 2014 US$'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 | 611 | 607 |
| 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 | 269 | 355 |
| For the audit of subsidiary statutory accounts pursuant to legislation [(a)] | 77 | 624 |
| | 957 | 1,586 |
| Non-audit fees | | |
| Other services pursuant to legislation – interim review [(b)] | 342 | 431 |
| Fees for reporting accountants services [(c)] | 231 | 2,313 |
| Tax services | 45 | 36 |
| | 618 | 2,780 |

*(a) Including the statutory audit of subsidiaries in the UK and Cyprus as well as US$541 thousand payable for the audit of the consolidated financial statements of IRC in 2014.*
*(b) Including US$93 thousand (2014: US$143 thousand) payable for the interim review of the consolidated financial statements of IRC.*
*(c) Fees payable in relation to the Refinancing (note 2) (2014: Fees payable in relation to the Refinancing).*

## 8. Staff costs

*Continuing operations*

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Wages and salaries | 69,806 | 103,410 |
| Social security costs | 19,235 | 26,329 |
| Pension costs | 219 | 334 |
| Share-based compensation | 280 | 1,546 |
| | 89,540 | 131,619 |
| | | |
| Average number of employees | 8,469 | 9,532 |

*Discontinued operations*

| | Period to 7 August 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Wages and salaries | 12,613 | 35,703 |
| Social security costs | 3,287 | 9,258 |
| Pension costs | 158 | 332 |
| Share-based compensation | 17 | 3,327 |
| | 16,075 | 48,620 |
| | | |
| Average number of employees | 1,752 | 2,261 |

## 9. Financial income and expenses

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Investment income | | |
| Interest income | 1,018 | 1,680 |
| | 1,018 | 1,680 |
| Interest expense | | |
| Interest on bank loans | (57,731) | (55,165) |
| Interest on convertible bonds | (13,570) | (25,424) |
| | (71,301) | (80,589) |
| Interest capitalised | – | 13,372 |
| Unwinding of discount on environmental obligation | (213) | (488) |
| | (71,514) | (67,705) |
| Other finance gains | | |
| Gain on settlement of the Existing Bonds [a] | 478 | – |
| Fair value gain on derivative financial instruments [b] | 6,417 | – |
| Financial guarantee fee [c] | 2,169 | – |
| | 9,064 | – |

*(a) Note 2.*

*(b) Result from re-measurement of the conversion option of the New Bonds to fair value (note 20).*

*(c) Note 26.*

### 10. Taxation

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Current tax | | |
| UK current tax | – | 1,601 [(a)] |
| Russian current tax | 31,752 | 32,849 |
| | 31,752 | 34,450 |
| Deferred tax | | |
| Origination of timing differences [(b)] | 17,127 | 133,421 |
| Total tax charge | 48,879 | 167,871 |

*(a) Being adjustment in relation to prior years.*

*(b) Including effect of foreign exchange movements in respect of deductible temporary differences of US$40.3 million (year ended 31 December 2014: US$128.8 million) which primarily arises as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US$ carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate .*

The charge for the year can be reconciled to the loss before tax per the income statement as follows:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Loss before tax from continuing operations | (141,575) | (14,286) |
| | | |
| Tax at the UK corporation tax rate of 20.25% [(a)] (2014: 21.5%) | (28,669) | (3,071) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (1,243) | (4,516) |
| Tax effect of share of results of joint ventures and associates | 12,235 | (643) |
| Tax effect of expenses that are not deductible for tax purposes | 9,674 | 11,419 |
| Tax effect of tax losses for which no deferred income tax asset was recognised | 26,583 | 33,117 |
| Utilisation of previously unrecognised tax losses | (767) | (363) |
| Foreign exchange movements in respect of deductible temporary differences | 40,305 | 128,787 |
| Other adjustments | (9,239) | 3,141 |
| Tax charge for the period | 48,879 | 167,871 |

*(a) On 20 March 2013, the UK Government announced a further reduction in the main rate of UK corporation tax from 21% to 20% effective from 1 April 2015.*

Tax legislation is subject to varying interpretations. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be subject to tax claims and exposures. The Directors do not anticipate that these exposures will have a material adverse effect upon the Group's financial position.

## 11. Earnings per share

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Loss for the period attributable to equity holders of Petropavlovsk PLC | (238,759) | (260,664) |
| From continuing operations | (190,155) | (184,296) |
| From discontinued operations | (48,604) | (76,368) |
| Interest expense on convertible bonds, net of tax [a] | – | – |
| Loss used to determine diluted earnings per share | (238,759) | (260,664) |
| From continuing operations | (190,155) | (184,296) |
| From discontinued operations | (48,604) | (76,368) |
| | No of shares | No of shares |
| Weighted average number of Ordinary Shares | 2,657,332,030 | 196,423,244 |
| Adjustments for dilutive potential Ordinary Shares [a], [b] | – | – |
| Weighted average number of Ordinary Shares for diluted earnings per share | 2,657,332,030 | 196,423,244 |
| | US$ | US$ |
| Basic loss per share | (0.09) | (1.33) |
| From continuing operations | (0.07) | (0.94) |
| From discontinued operations | (0.02) | (0.39) |
| | | |
| Diluted loss per share | (0.09) | (1.33) |
| From continuing operations | (0.07) | (0.94) |
| From discontinued operations | (0.02) | (0.39) |

*(a) Convertible bonds which could potentially dilute basic loss per ordinary share in the future are not included in the calculation of diluted loss per share because they were anti-dilutive for the year ended 31 December 2015 and 2014.*

*(b) The Group had a potentially dilutive option issued to International Finance Corporation ('IFC') to subscribe for 1,067,273 Ordinary Shares (note 23) which was anti-dilutive and therefore was not included in the calculation of diluted loss per share for the year ended 31 December 2015 and 2014.*

### 12. Exploration and evaluation assets

| | Visokoe US$'000 | Flanks of Pokrovskiy US$'000 | Flanks of Albyn US$'000 | Other [(a)] US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1 January 2015 | 48,293 | 4,385 | 35,639 | 9,216 | 97,533 |
| Additions | 458 | 500 | 3,441 | 4,777 | 9,176 |
| Impairment [(b)] | (32,500) | (2,324) | – | (2,618) | (37,442) |
| Reallocation and other transfers | – | (274) | – | – | (274) |
| At 31 December 2015 | 16,251 | 2,287 | 39,080 | 11,375 | 68,993 |

*(a) Represent amounts capitalised in respect of a number of projects in the Amur region and Guyana.*

*(b) Note 6.*

| | Visokoe US$'000 | Flanks of Pokrovskiy US$'000 | Flanks of Albyn US$'000 | Other [(c)] US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1 January 2014 | 47,334 | 10,343 | 40,822 | 17,509 | 116,008 |
| Additions | 959 | 2,455 | 7,218 | 9,288 | 19,920 |
| Disposal of subsidiary | – | – | – | (13) | (13) |
| Disposal | – | (800) | – | – | (800) |
| Impairment [(d)] | – | (3,463) | – | (10,921) | (14,384) |
| Transfer to mining assets | – | (73) | (12,401) [(e)] | (5,376) | (17,850) |
| Transfer to assets classified as held for sale [(f)] | – | – | – | (1,661) | (1,661) |
| Reallocation and other transfers | – | (4,077) | – | 390 | (3,687) |
| At 31 December 2014 | 48,293 | 4,385 | 35,639 | 9,216 | 97,533 |

*(c) Represent amounts capitalised in respect of a number of projects in the Amur region and Guyana.*

*(d) Note 6.*

*(e) Following completion of exploration and commencement of the mining activity at the Flanks of Albyn, the associated amounts capitalised has been transferred to mining assets within property, plant and equipment.*

*(f) Note 28.*

## 13. Property, plant and equipment

| | Mine development costs US$'000 | Mining assets US$'000 | Non-mining assets US$'000 | Capital construction in progress [c] (US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 January 2014 | 6,725 | 1,849,026 | 226,303 | 258,480 | 2,340,534 |
| Additions | 42 | 29,884 | 1,960 | 67,408 | 99,294 |
| Interest capitalised (note 9) (a) | – | – | – | 13,372 | 13,372 |
| Close down and restoration cost capitalised (note 22) | – | (15,440) | – | – | (15,440) |
| Transfers from exploration and evaluation assets (note 12) | – | 17,850 | – | – | 17,850 |
| Transfers from capital construction in progress (b) | – | 17,596 | 1,329 | (18,925) | – |
| Disposals | – | (8,167) | (13,148) | (109) | (21,424) |
| Transfer to assets classified as held for sale (note 28) | (7) | (38,112) | (988) | – | (39,107) |
| Reallocation and other transfers | (1,077) | (11,567) | (2,121) | 18,338 | 3,573 |
| Foreign exchange differences | – | – | (7,164) | – | (7,164) |
| At 31 December 2014 | 5,683 | 1,841,070 | 206,171 | 338,564 | 2,391,488 |
| Additions | – | 20,203 | 1,012 | 9,865 | 31,080 |
| Close down and restoration cost capitalised (note 22) | – | (4,246) | – | – | (4,246) |
| Transfers from capital construction in progress (b) | – | 5,779 | 961 | (6,740) | – |
| Disposals | – | (7,091) | (4,633) | (56) | (11,780) |
| Reallocation and other transfers | – | 493 | (141) | (46) | 306 |
| Foreign exchange differences | – | – | (5,672) | – | (5,672) |
| At 31 December 2015 | 5,683 | 1,856,208 | 197,698 | 341,587 | 2,401,176 |
| Accumulated depreciation and impairment | | | | | |
| At 1 January 2014 | 5,711 | 974,065 | 181,908 | 6,888 | 1,168,572 |
| Charge for the year | 14 | 137,381 | 8,191 | – | 145,586 |
| Impairment (note 6) | | 1,371 | 1,217 | | 2,588 |
| Reversal of impairment of mining assets (note 6) | – | (28,530) | – | (405) | (28,935) |
| Disposals | – | (5,931) | (8,822) | – | (14,753) |
| Transfer to assets classified as held for sale (note 28) | (7) | (20,117) | (702) | | (20,826) |
| Reallocation and other transfers | (35) | 2,128 | (2,207) | – | (114) |
| Foreign exchange differences | – | – | (3,662) | – | (3,662) |
| At 31 December 2014 | 5,683 | 1,060,367 | 175,923 | 6,483 | 1,248,456 |
| Charge for the year | – | 122,328 | 6,165 | – | 128,493 |
| Disposals | – | (5,680) | (4,183) | – | (9,863) |
| Reallocation and other transfers | – | 276 | 28 | 1 | 305 |
| Foreign exchange differences | – | – | (4,558) | – | (4,558) |
| At 31 December 2015 | 5,683 | 1,177,291 | 173,375 | 6,484 | 1,362,833 |
| Net book value | | | | | |
| At 31 December 2014 (d) | – | 780,703 | 30,248 | 332,081 | 1,143,032 |
| At 31 December 2015 (d) | – | 678,917 | 24,323 | 335,103 | 1,038,343 |

*(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 7.8% during the year ended 31 December 2014.*

*(b) Being costs primarily associated with continuous development of Malomir, Albyn and Pioneer projects.*

*(c) Including US$197.4 million costs associated with POX Hub project (31 December 2014: US$191.6 million)*

*(d) Property, plant and equipment with a net book value of US$125.6 million (31 December 2014: US$143.0 million) have been pledged to secure borrowings of the Group.*

### 14. Investments in associates

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| IRC Limited ('IRC') [(a)] | 39,163 | – |
| JSC Verkhnetisskaya Ore Mining Company | 231 | 231 |
| JSC ZRK Omchak [(b)] | – | 1,000 |
| | 39,394 | 1,231 |

*(a) Note 27.*

*(b) On 7 April 2015, the Group entered into an SPA to sell its 25% interest in CJSC ZRK Omchak for a total cash consideration of US$1 million.*

Summarised financial information for those associates that are material to the Group is set out below.

| | IRC 2015 US$'000 |
|---|---|
| Non-current assets | |
| Exploration and evaluation assets | 6,717 |
| Property, plant and equipment | 199,714 |
| Prepayments for property, plant and equipment | 88,859 |
| Other non-current assets | 2,277 |
| | 297,567 |
| Current assets | |
| Cash and cash equivalents | 56,144 |
| Other current assets | 55,038 |
| | 111,182 |
| Current liabilities | |
| Borrowings [(a)] | 53,050 |
| Other current liabilities | 18,398 |
| | 71,448 |
| Non-current liabilities | |
| Borrowings [(a)] | 215,238 |
| Other non-current liabilities | 12,773 |
| | 228,011 |
| Net assets | 109,290 |

*(a) On 6 December 2010, KS GOK 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 (notes 2.1 and 26) and is repayable semi-annually in 16 instalments US$21,250 thousand each, starting from December 2014 and is fully repayable by June 2022. The outstanding loan principal was US$276.3 million as at 31 December 2015 (31 December 2014: US$266.7 million). The loan is carried at amortised cost with effective interest rate at 5.91% per annum. As at 31 December 2015 and 2014, US$2.1 million and US$27.3 million, respectively, were deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement. As at 31 December 2015, the amounts undrawn under the ICBC Facility Agreement were nil (31 December 2014: US$52 million). ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2015, inclusive. In consideration for the waiver of the covenants, the Group pledged 521,376,470 ordinary shares (approximately 8.47%) in the issued capital of IRC to ICBC as security for its obligations as guarantor under the ICBC project finance facility for so long as the waiver remains in place.*

## 14. Investments in associates continued

| | IRC Period from 7 August to 31 December 2015 US$'000 |
|---|---|
| Revenue | 31,627 |
| Net operating expenses | (199,081) |
| including | |
| Depreciation | (371) |
| Impairment of mining assets | (138,623) |
| Impairment of exploration and evaluation assets | (4,475) |
| Impairment of ore stockpiles | (7,492) |
| Impairment of investments in joint ventures | (5,895) |
| Foreign exchange losses | (1,075) |
| Investment income | 295 |
| Interest expense | (683) |
| Taxation | (774) |
| Loss for the period | (168,616) |
| Other comprehensive loss | (1,740) |
| Total comprehensive loss | (170,356) |

## 15. Inventories

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Current | | |
| Construction materials | 6,952 | 9,746 |
| Stores and spares | 66,534 | 87,968 |
| Ore in stockpiles [(a), (c)] | 17,249 | 46,789 |
| Work in progress | 53,579 | 39,633 |
| Deferred stripping costs | 17,981 | 8,428 |
| Bullion in process | 1,212 | 1,529 |
| Other | 11,715 | 12,405 |
| | 175,222 | 206,498 |
| Non-current | | |
| Ore in stockpiles [(a), (b), (c)] | 51,434 | 42,436 |
| | 51,434 | 42,436 |

*(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 2015, ore in stockpiles include balances in the aggregate of US$63.1 million carried at net realisable value (2014: US$11.5 million).*

## 16. Trade and other receivables

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Current | | |
| VAT recoverable | 31,489 | 35,430 |
| Advances to suppliers | 3,320 | 10,492 |
| Trade receivables [(a)] | 4,018 | 12,314 |
| Other debtors [(b)] | 9,269 | 16,656 |
| | 48,096 | 74,892 |

*(a) Net of provision for impairment of US$0.4 million (2014: US$0.6 million). Trade receivables are due for settlement between one and three months.*

*(b) Net of provision for impairment of US$1.2 million (2014: US$2.2 million). The movement in the provision arises primarily from the depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2015 as the underlying receivables are Rouble denominated.*

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

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Cash at bank and in hand | 22,144 | 45,787 |
| Short-term bank deposits | 6,095 | 2,293 |
| | 28,239 [(a)] | 48,080 |

*(a) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 33).*

## 18. Derivative financial instruments

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | Assets US$'000 | Liabilities US$'000 | Assets US$'000 | Liabilities US$'000 |
| Forward gold contracts – cash flow hedge [(a), (b), (e)] | 3,925 | - | 6,272 | - |
| Gold put option contracts [(c), (d), (e)] | - | - | 3,158 | - |
| Conversion option of the New Bonds [(f), (g)] | - | (14,684) | - | - |
| | 3,925 | (14,684) | 9,430 | - |

*(a) Forward contracts to sell an aggregate of 71,551 ounces of gold at an average price of US$1,116 per ounce are outstanding as at 31 December 2015 (31 December 2014: 50,000 ounces of gold at an average price of US$1,310 per ounce).*

*(b) Measured at fair value and considered 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.*

*(c) Option contracts to sell an aggregate of 150,000 ounces of gold with a strike price of US$1,150 per ounce are outstanding as at 31 December 2014. The intrinsic value of the option contracts is designated as a cash flow hedge and the time value of the option contracts is designated at fair value through profit or loss.*

*(d) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:*

- *historic gold price volatility;*
- *the option strike price;*
- *time to maturity; and*
- *risk free rate.*

*(e) 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 as at the reporting date 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 years ended 31 December 2015 and 2014.*

*(f) Note 20.*

*(g) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:*

- *the Group's credit risk;*
- *historic share price volatility;*
- *the conversion price;*
- *time to maturity; and*
- *risk free rate.*

## 19. Trade and other payables

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Trade payables | 44,263 | 16,027 |
| Advances from customers | 569 | 6,146 |
| Advances received on resale and commission contracts [(a)] | 12,770 | 16,714 |
| Accruals and other payables [(b)] | 38,965 | 27,826 |
| | 96,567 | 66,713 |

*(a) Amounts included in advances received on resale and commission contracts at 31 December 2015 and 31 December 2014 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.*

*(b) Including US$15.1 million liability under an investment agreement with the Russian Ministry of Far East Development (note 33).*

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

## 20. Borrowings

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Borrowings at amortised cost | | |
| Convertible bonds [(a),(b),(c)] | 85,503 | 313,257 |
| Bank loans [(c)] | 552,775 | 664,547 |
| | 638,278 | 977,804 |
| Amount due for settlement within 12 months | 260,248 | 415,161 |
| Amount due for settlement after 12 months | 378,030 | 562,643 |
| | 638,278 | 977,804 |

*(a) Liability component of the US$100 million convertible bonds due on 18 March 2020 (31 December 2014: outstanding $310.5 million principal of US$380 million convertible bonds issued in 2010 and due on 18 March 2015 (following the extension of the original maturity date of 18 February 2015)). Note 2.*

*(b) The liability component of the New Bonds was arrived at as set out below.*

| | *18 March 2015 US$' 000* |
|---|---|
| *Par value of the New Bonds* | *100,000* |
| *Fair value uplift of the New Bonds* | *9,400* |
| *Less: Refinancing costs [(note 2)]* | *(5,130)* |
| *Less: Conversion option of the New Bonds recognised separately* | *(21,100)* |
| *Liability component of the New Bonds* | *83,170* |

*The liability component of the New Bonds is measured at amortised cost. The interest charged was calculated by applying an effective interest rate of 13.89% to the liability component. The conversion option of the New Bonds represents the fair value of the embedded option for the bondholders to convert into the equity of the Company ("the Conversion Right"). As the Company can elect to pay the cash value in lieu of delivering the Ordinary Shares following the exercise of the Conversion Right, the conversion option is a derivative liability. Accordingly, the conversion option is measured at fair value and is presented separately within derivative financial liabilities.*

*(c) As at 31 December 2015, the fair value of the convertible bonds, considered as Level 1 of the fair value hierarchy and calculated by applying the market traded price to the convertible bonds outstanding, amounted to US106.3 million (31 December 2014: US$271 million).*

*As at 31 December 2015, US$540.0 million bank loans are secured against certain items of property, plant and equipment of the Group (note 13) and shares in the issued share capital of the certain Group subsidiaries, namely 100% of LLC Albynskiy Rudnik, 89.73% of LLC Malomirskiy Rudnik, 100% of LLC Temi and 100% of LLC Rudoperspektiva (2014: US$111.1 million bank loans are secured against certain items of property, plant and equipment of the Group (note 13)).*

*The weighted average interest rate paid during the year ended 31 December 2015 was 9.1% (2014: 7.9%).*

*The carrying value of the bank loans approximated their fair value at each period end.*

*As at 31 December 2015, bank loans with an aggregate carrying value of US$552.8 million (2014: US$553.4million) contain certain financial covenants.*

*As at 31 December 2015, the amounts undrawn under the bank loans were US$ nil (2014: US$ nil).*

## 21. Deferred taxation

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| At 1 January | 156,814 | 37,550 |
| Deferred tax charged to income statement [(a)] | 17,127 | 133,421 |
| Deferred tax credited to equity | (469) | (11,314) |
| Transfer to liabilities associated with assets classified as held for sale | 28 | (3,005) |
| Exchange differences | (1) | 162 |
| At 31 December | 173,499 | 156,814 |
| Deferred tax assets | – | 40 |
| Deferred tax liabilities | (173,499) | (156,854) |
| Net deferred tax liability | (173,499) | (156,814) |

*(a) Note 10.*

| | At 1 January 2015 US$'000 | Charged/ (credited) to the income statement US$'000 | Credited directly to equity US$'000 | Transfer to liabilities associated with assets classified as held for sale [(a)] US$'000 | Exchange differences US$'000 | At 31 December 2015 US$'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 116,094 | 19,494 | – | 147 | – | 135,735 |
| Inventory | 21,906 | (5,367) | – | (88) | – | 16,451 |
| Exploration and evaluation assets | 3,529 | (515) | – | (18) | – | 2,996 |
| Fair value adjustments | 487 | 344 | – | (43) | (74) | 714 |
| Other temporary differences | 14,798 | 3,171 | (469) | 30 | 73 | 17,603 |
| | 156,814 | 17,127 | (469) | 28 | (1) | 173,499 |

| | At 1 January 2014 US$'000 | Charged/ (credited) to the income statement US$'000 | Credited directly to equity US$'000 | Transfer to liabilities associated with assets classified as held for sale [(a)] US$'000 | Exchange differences US$'000 | At 31 December 2014 US$'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 14,346 | 103,420 | – | (1,672) | – | 116,094 |
| Inventory | 13,180 | 8,718 | – | 8 | – | 21,906 |
| Exploration and evaluation assets | (4,575) | 8,190 | – | (86) | – | 3,529 |
| Fair value adjustments | 7,082 | (5,866) | – | (486) | (243) | 487 |
| Tax losses | (4,412) | 4,412 | – | – | – | – |
| Other temporary differences | 11,929 | 14,547 | (11,314) | (769) | 405 | 14,798 |
| | 37,550 | 133,421 | (11,314) | (3,005) | 162 | 156,814 |

*(a) Note 28.*

As at 31 December 2015, the Group did not recognise deferred tax assets in respect of the accumulated tax losses from continuing operations comprising US$528.9 million that can be carried forward against future taxable income (2014: US$499.2 million). Tax losses of US$381.3 million can be carried forward indefinitely and tax losses of US$147.6 million expire primarily between 2019 and 2025.

As at 31 December 2015, the Group did not recognise deferred tax assets of US$3.1 million (2014: US$4.0 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 2015, statutory unremitted earnings from continuing operations comprised in aggregate US$597.0 million (2014: US$676.5 million).

## 22. Provision for close down and restoration costs

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| At 1 January | 21,217 | 36,169 |
| Unwinding of discount | 213 | 488 |
| Change in estimates [(a)] | (4,246) | (15,440) |
| At 31 December | 17,184 | 21,217 |

*(a) Primarily reflects the effect of change in the forecast the Russian Rouble to the US Dollar exchange rate following a significant depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2015 and during the year ended 31 December 2014.*

The Group recognised provisions in relation to close down and restoration costs for the following mining operations:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Pokrovskiy | 2,646 | 2,703 |
| Pioneer | 2,754 | 4,028 |
| Malomir | 5,610 | 6,384 |
| Albyn | 5,790 | 7,718 |
| Yamal | 384 | 384 |
| | 17,184 | 21,217 |

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 2016 and 2028, varying from mine site to mine site.

## 23. Share capital

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | No of shares | US$'000 | No of shares | US$'000 |
| Allotted, called up and fully paid [(a)] | | | | |
| At 1 January | 197,638,425 | 3,041 | 197,638,425 | 3,041 |
| Issued during the period [(b)] | 3,102,923,272 | 45,833 | – | – |
| At 31 December | 3,300,561,697 | 48,874 | 197,638,425 | 3,041 |

*(a) Ordinary shares of 1p each.*

*(b) Note 2.*

The Company has one class of ordinary shares which carry no right to fixed income.

The Company had an option issued to the IFC on 20 April 2009 to subscribe for 1,067,273 Ordinary Shares at an exercise price of £11.84 per share, subject to adjustments. The option expired unexercised on 25 May 2015.

## 24. Own shares

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| At 1 January | 8,925 | 8,925 |
| Rights issue | 8 | – |
| At 31 December | 8,933 | 8,925 |

Own shares represent 1,441,406 Ordinary Shares held by the Company's EBT (2014: 1,215,181).

### 25. Notes to the cash flow statement

**Reconciliation of loss before tax to operating cash flow**

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Loss before tax including discontinued operations | (248,179) | (173,801) |
| Adjustments for: | | |
| Share of results of joint ventures | (588) | (2,900) |
| Share of results of associate | 60,422 | (2,990) |
| Investment income | (4,351) | (3,347) |
| Other finance gains | (6,894) | – |
| Interest expense | 72,703 | 70,248 |
| Share based payments | 297 | 4,873 |
| Depreciation | 121,599 | 150,482 |
| Reversal of impairment of mining assets | – | (28,935) |
| Impairment of IRC assets | – | 18,810 |
| Impairment of exploration and evaluation assets | 37,442 | 22,034 |
| Impairment of ore stockpiles | 17,425 | 10,144 |
| Impairment of investments in associates | – | 9,697 |
| Effect of processing previously impaired stockpiles | (8,535) | (41,834) |
| Provision for impairment of trade and other receivables | 1,264 | (1,017) |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell | 96,639 | 89,570 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell | – | 11,867 |
| Loss on disposals of property, plant and equipment | 1,090 | 1,917 |
| Loss/(gain) on disposal of subsidiaries | 384 | (3,127) |
| Foreign exchange losses | 15,237 | 44,677 |
| Other non-cash items | 5,337 | 4,093 |
| Changes in working capital: | | |
| Decrease/(increase) in trade and other receivables | 3,621 | (17,943) |
| Decrease in inventories | 22,675 | 67,628 |
| Increase in trade and other payables | 21,253 | 15,261 |
| Net cash generated from operations | 208,841 | 245,407 |

**Non-cash transactions**

During the year ended 31 December 2015, except for the issue of the Ordinary Shares in exchange for the Existing Bonds (note 2), there have been no significant non-cash transactions (2014: there have been no significant non-cash transactions).

## 26. Related parties

**Related parties the Group entered into transactions with during the reporting period**
JSC Asian-Pacific Bank ('Asian-Pacific Bank') and LLC Insurance Company Helios Reserve ('Helios') are considered to be a 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.

JSC Verkhnetisskaya Ore Mining Company ('Verkhnetisskaya') is an associate to the Group and hence qualifies as a related party since then.

JSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ('Omchak') are associates to the Group and hence are related parties until 29 April 2015 when the Group disposed its interest in Omchak.

IRC Limited and its subsidiaries (note 36) are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties the Group entered into during the years ended 31 December 2015 and 2014 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 | |
|---|---|---|---|---|
| | 2015 US$'000 | 2014 US$'000 | 2015 US$'000 | 2014 US$'000 |
| Asian-Pacific Bank | | | | |
| Other | 575 | 503 | 113 | 201 |
| | 575 | 503 | 113 | 201 |
| 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 | 1,182 | 294 | 5,716 | 10,317 |
| Associates | | | | |
| IRC Limited and its subsidiaries | 49 | – | 1,152 | – |
| JSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak | 2 | 80 | – | – |
| | 1,233 | 374 | 6,868 | 10,317 |

During the year ended 31 December 2015, the Group made US$0.4 million charitable donations to the Petropavlovsk Foundation (2014: US$0.5 million).

The outstanding balances with related parties at 31 December 2015 and 2014 are set out below.

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|
| | at 31 December 2015 US$'000 | at 31 December 2014 US$'000 | at 31 December 2015 US$'000 | at 31 December 2014 US$'000 |
| Helios and other entities in which key management have interest and exercises a significant influence or control | 1,328 | 2,864 | 450 | 151 |
| Asian-Pacific Bank | – | 6 | – | – |
| Associates | | | | |
| IRC Limited and its subsidiaries | 2,023 | – | 1,233 | – |
| JSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak | – | 85 | – | – |
| | 3,351 | 2,955 | 1,683 | 151 |

### Banking arrangements

The Group has current and deposit bank accounts with Asian-Pacific Bank.

The bank balances at 31 December 2015 and 2014 are set out below.

| | 2015 US$'000 | 2014 [(a)] US$'000 |
|---|---|---|
| Asian-Pacific Bank | 3,208 | 52,253 |

*(a) Including US$31.9 million presented within assets classified as held for sale as at 31 December 2014 (notes 27 and 28).*

### Financing transactions

The Group had an interest-free unsecured loan issued to Verkhnetisskaya. Loan principal outstanding as at 31 December 2015 amounted to US$2.8 million (31 December 2014: US$3.6 million).

As at 31 December 2014 the Group had an interest-free unsecured loan issued to LLC Kaurchak. Loan principal outstanding amounted to US$0.6 million.

During the year ended 31 December 2015, the Group received a number of loans from Asian-Pacific Bank. Loan principal outstanding as at 31 December 2015 amounted to US$2.7 million. Interest charged on loans received from Asian-Pacific Bank comprised US$0.5 million (2014: US$nil).

Financing transactions between IRC and Asian-Pacific Bank are disclosed in note 27.

The Group has charged a fee for the provision of the guarantee to IRC (note 27), equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement and which amounted to US$2.2 million during the year ended 31 December 2015.

### Key management compensation

Key management personnel, comprising a group of 18 (2014: 21) 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.

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Wages and salaries | 7,231 | 9,453 |
| Pension costs | 357 | 586 |
| Share-based compensation | 280 | 2,346 |
| | 7,868 | 12,385 |

## 27. Asset held for sale, discontinued operation and disposal of subsidiaries – IRC

As at 31 December 2014, the Group's interest in the share capital of IRC was 45.39%. The Group retained sufficiently dominant voting interest to exercise de facto control over IRC on the basis of the size of the Group's shareholding relative to the size and dispersion of the shareholding interests of other shareholders.

On 7 August 2015, IRC completed the Open Offer resulting in the issue of 1,295,976,080 shares. The Group did not subscribe for the Offer Shares it was entitled to and the Group's interest in the share capital of IRC was diluted to 35.83%. With other significant shareholder blocks in place following the completion of the Open Offer and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group is no longer considered to be exercising de facto control over IRC and, accordingly, IRC ceased being a subsidiary to the Group and is recognised as an associate to the Group from 7 August 2015 (note 14).

IRC was classified as 'held for sale' and presented separately in the balance sheet as at 31 December 2014 as well as presented as a discontinued operation in the income statement to the date of disposal.

The main categories of assets and liabilities classified as held for sale are set out below.

| | 7 August 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | 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 |
| Exploration and evaluation assets | 55,021 | 13,882 | 54,790 | 17,664 |
| Property, plant and equipment [c] | 781,196 | 226,397 | 702,050 | 239,975 |
| Prepayments for property, plant and equipment | 175,568 | 175,568 | 203,387 | 203,387 |
| Interests in joint ventures | 6,511 | 6,511 | 7,294 | 7,294 |
| Other non-current assets | 28,445 | 28,445 | 32,298 | 32,298 |
| Inventories | 43,487 | 43,487 | 51,181 | 51,181 |
| Trade and other receivables | 17,983 | 17,983 | 15,662 | 15,662 |
| Cash and cash equivalents | 70,815 | 70,815 | 47,740 | 47,740 |
| Total assets classified as held for sale | 1,179,026 | 583,088 | 1,114,402 | 615,201 |
| Trade and other payables | 13,346 | 13,346 | 11,683 | 11,683 |
| Current income tax payable | 270 | 270 | 478 | 478 |
| Borrowings [d,e] | 293,835 | 293,835 | 268,891 | 268,891 |
| Deferred tax liabilities | 64,532 | 4,246 | 64,204 | 4,016 |
| Provision for close down and restoration costs | 4,122 | 4,122 | 4,021 | 4,021 |
| Total liabilities associated with assets classified as held for sale | 376,105 | 315,819 | 349,277 | 289,089 |
| Net assets of IRC | 802,921 | 267,269 | 765,125 | 326,112 |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell: | | | | |
| as at 31 December 2014 | (439,013) | | (439,013) | |
| as at 7 August 2015 | (96,639) | | | |
| Fair value less costs to sell [a], [b] | 267,269 | | 326,112 | |
| Attributable to: | | | | |
| Equity shareholders of Petropavlovsk PLC | 96,279 | | 148,814 | |
| Non-controlling interests | 170,990 | | 177,298 | |
| Total consideration [f] | | 99,585 | | |
| Gain on sale before reclassification of foreign currency translation reserve | | 3,306 | | |
| Transfer of foreign currency translation reserve | | (2,601) | | |
| Gain on disposal | | 705 | | |

*(a) Based on market share price of HK$0.35 per IRC share as at 7 August 2015 (31 December 2014: HK$0.52) less transaction costs.*

*(b) Non-recurring fair value measurement treated as Level 1 of the fair value hierarchy.*

*(c) At 31 December 2014, IRC had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US$68 million. These amounts are not included in the capital commitments stated in note 33, as such amounts therein represent commitments from continuing operations.*

*(d) Including US$297.5 million outstanding principal under ICBC facility carried at amortised cost (note 14).*

*(e) Including borrowings from Asian-Pacific Bank of US$16.6 million (31 December 2014: US$21 million). As at 7 August 2015, the amounts undrawn under the facilities with Asian-Pacific Bank were US$8.4 million (31 December 2014: US$4 million). Interest charged on borrowings from Asian-Pacific Bank comprised US$0.9 million (2014: US$1.9 million).*

*(f) Fair value of equity interest in IRC based on number of IRC shares held by the Group and market share price of HK$0.35 per IRC share as at 7 August 2015.*

Analysis of the result of discontinued operations and the results recognised on the re-measurement of IRC and disposal of IRC is set out below.

| | Period to 7 August 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Revenue | 50,282 | 122,414 |
| Net expenses | (60,952) | (192,359) |
| Loss before tax from discontinued operations | (10,670) | (69,945) |
| Taxation | (419) | (6,020) |
| Loss after tax from discontinued operations | (11,089) | (75,965) |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell | (96,639) | (89,570) |
| Gain on disposal of IRC | 705 | – |
| Loss for the period from discontinued operations | (107,023) | (165,535) |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | (48,604) | (76,368) |
| Non-controlling interests | (58,419) | (89,167) |

Analysis of cash flows attributable to discontinued operations is set out below.

| | Period to 7 August 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Operating cash flows | (7,550) | (35,610) |
| Investing cash flows | (42,973) | (95,936) |
| Financing cash flows | 74,200 | 89,764 |
| Total cash flows | 23,677 | (41,782) |

## 28. Disposal of subsidiaries – Koboldo

On 16 April 2015, the Group entered into a conditional SPA relating to the sale of its 95.7% interest in JSC ZDP Koboldo ('Koboldo'). The disposal was completed on 22 April 2015.

Koboldo is an alluvial operation located in the Amur region in the Far East of Russia and represents an alluvial operations segment (note 4). As at 31 December 2014, Koboldo was classified as 'held for sale'.

The main categories of assets and liabilities at the date of disposal and 31 December 2014 are set out below.

| | 22 April 2015 | 31 December 2014 | |
|---|---|---|---|
| | Fair value less costs to sell US$'000 | Carrying amount US$'000 | Fair value less costs to sell US$'000 |
| Exploration and evaluation assets | 475 | 1,661 | 475 |
| Property, plant and equipment | 3,822 | 18,281 | 5,227 |
| Prepayments for property, plant and equipment | – | 35 | 35 |
| Inventories | 3,320 | 72 | 72 |
| Trade and other receivables | 1,708 | 1,124 | 1,124 |
| Cash and cash equivalents | 11,161 | 7,719 | 7,719 |
| Total assets classified as held for sale | 20,486 | 28,892 | 14,652 |
| Trade and other payables | 1,242 | 125 | 125 |
| Deferred tax liabilities | 603 | 3,005 | 632 |
| Total liabilities associated with assets classified as held for sale | 1,845 | 3,130 | 757 |
| Net assets of Koboldo | 18,641 | 25,762 | 13,895 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell as at 31 December 2014 | | (11,867) | |
| Fair value less costs to sell (a), (b) | 18,641 | 13,895 | |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | 17,880 | 13,297 | |
| Non-controlling interests | 761 | 598 | |
| Consideration (c) | 17,496 | | |
| Loss on disposal | 384 | | |
| Net cash outflow arising on disposal: | | | |
| Consideration received in cash and cash equivalents (c) | 17,646 | | |
| Less: cash and cash equivalents disposed of | (11,161) | | |
| | 6,485 | | |

*(a) Based on the indicative cash consideration.*

*(b) Non-recurring fair value measurement treated as Level 3 of the fair value hierarchy.*

*(c) Net of transaction costs.*

## 29. Share based payments

On 31 March 2015, the Remuneration Committee approved a bonus of £555,000 to the Chief Executive Officer, of which 50% is payable in cash and 50% in the form of a Deferred Share Award. The number of shares awarded will be based on the market share price at the date of award, being 1 May 2015. The vesting of this award will be subject to Chief Executive Officer's continued service for a 12-month period from the date of award unless he departs the Company as a 'good' leaver.

### 30. Analysis of net debt

| | At 1 January 2015 US$'000 | Net cash Movement US$'000 | Exchange movement US$'000 | Non-cash changes US$'000 | At 31 December 2,015 US$'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 48,080 | (15,173)[(a)] | (4,668) | – | 28,239[(b)] |
| Borrowings | (977,804) | 316,188 | (105) | 23,443 | (638,278) |
| Net debt | (929,724) | 301,015 | (4,773) | 23,443[(c)] | (610,039) |

*(a) Excluding operations classified as held-for-sale (notes 27 and 28).*

*(b) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 33).*

*(c) Being amortisation of borrowings and the effect of the Refinancing*

| | At 1 January 2014 US$'000 | Net cash movement US$'000 | Transferred to assets classified as held for sale US$' 000 | Exchange movement US$'000 | Non-cash changes US$'000 | At 31 December 2014 US$'000 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 170,595 | (84,325) | (7,719) | (30,471) | - | 48,080 |
| Borrowings | (1,119,012) | 221,798 | - | - | (80,590) | (977,804) |
| Net debt | (948,417) | 137,473 | (7,719) | (30,471) | (80,590)[(c)] | (929,724) |

*(c) Being amortisation of borrowings.*

### 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 2015, the capital comprised US$1.2 billion (2014: US$1.7 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.

The capital of IRC is managed separately by the Independent Board of IRC (notes 14 and 27)

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.

## 31. Financial instruments and financial risk management continued

### Categories of financial instruments

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Financial assets | | |
| Cash and cash equivalents | 28,239 | 48,080 |
| Derivative financial instruments – cash flow hedge | 3,925 | 6,272 |
| Derivative financial instruments – at fair value through profit or loss | – | 3,158 |
| Loans and receivables | 12,473 | 20,744 |
| Available-for-sale investments | 271 | 112 |
| Financial liabilities | | |
| Trade and other payables – at amortised cost | 60,642 | 33,575 |
| Borrowings – at amortised cost | 638,278 | 977,804 |

**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 fixed rate borrowings and are carried at amortised cost. They are therefore not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. The Group does not have borrowings with variable interest rates.

**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.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at period end are set out below.

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2015 US$'000 | 2014 US$'000 | 2015 US$'000 | 2014 US$'000 |
| Russian Roubles | 56,795 | 75,390 | 56,817 | 40,364 |
| US Dollars [(a)] | 2,875 | 1,519 | 7,278 | – |
| GB Pounds Sterling | 357 | 5,709 | 943 | 3,140 |
| EUR | 80 | 165 | 42 | 690 |
| Other currencies | 92 | 413 | 220 | 88 |

*(a) US Dollar denominated monetary assets and liabilities in Group companies with Rouble functional currency.*

The table set out below illustrates the Group's profit sensitivity to changes in exchange rates by 25% (2014: 25%), representing management's assessment of a reasonably possible change in foreign exchange currency rates. The analysis was applied to monetary assets and liabilities at the reporting dates denominated in respective currencies.

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Russian Rouble currency impact | 5 | 8,756 |
| US Dollar currency impact | 1,101 | 380 |
| GB Pounds Sterling currency impact | 146 | 642 |
| EUR currency impact | 10 | 131 |
| Other currencies | 32 | 81 |

**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 2015 US$'000 | Carrying amount at 31 December 2014 US$'000 |
|---|---|---|---|
| Treasury of Russian Federation [(a)] | – | 15,093 | – |
| Royal Bank of Scotland | BBB+ | 4,835 | 2,560 |
| VTB | BB+ | 3,760 | 4,938 |
| Asian-Pacific Bank | B- | 3,208 | 20,310 |
| Sberbank | BBB- | 512 | 3,223 |
| UBS | A | 173 | 15,240 |
| Alfa-Bank | BB+ | – | 345 |

*(a) Funds received under investment agreement with the Russian Ministry of Far East Development (note 33).*

**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 2015 and 2014, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18).

**Equity price risk**
The Group was exposed to equity price risk through the investment in IRC (notes 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 |
|---|---|---|---|---|---|
| 2015 | | | | | |
| Borrowings | | | | | |
| – Convertible bonds | – | – | – | – | 100,000 |
| – Loans | 41,744 | 210,105 | 288,274 | 16,817 | |
| Expected future interest payments (a) | 10,952 | 34,911 | 22,786 | 9,354 | 11,250 |
| Trade and other payables | 28,070 | 32,572 | – | – | |
| | 80,766 | 277,588 | 311,060 | 26,171 | 111,250 |
| 2014 | | | | | |
| Borrowings | | | | | |
| – Convertible bonds | 310,500 | – | – | – | – |
| – Loans | 2,250 | 95,714 | 240,923 | 263,273 | 66,818 |
| Expected future interest payments (a) | 16,856 | 36,970 | 37,686 | 17,970 | 1,897 |
| Trade and other payables | 33,576 | – | – | – | – |
| | 363,182 | 132,684 | 278,609 | 281,243 | 68,715 |

*(a) Expected future interest payments have been estimated using interest rates applicable at 31 December. There are no borrowings that 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

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year | 2,535 | 2,671 |

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:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Expiring: | | |
| Within one year | 383 | 313 |
| In two to five years | 1,148 | 94 |
| | 1,531 | 407 |

### The Group as a Lessor

The Group earned property rental income from continuing operations during the year of US$0.8 million (2014: US$1.2 million) on buildings owned by its subsidiary Irgiredmet.

## 33. Capital commitments

At 31 December 2015, the Group had entered into contractual commitments in relation to its continuing operations for the acquisition of property, plant and equipment and mine development costs in relation to POX Hub project amounting to US$1.0 million (31 December 2014: US$1.2 million).

*Investment agreement with the Russian Ministry of Far East Development*
On 14 December 2015, the Group entered into an investment agreement with the Russian Ministry of Far East Development (the 'Investment Agreement'). The Investment Agreement involves provision of RUB5.5billion (an equivalent to c.US$75 million as at 31 December 2015) funding towards the construction of the electricity power line in the North-East of the Amur Region of Russia, where the Group's Albyn and Malomir mines and adjacent licence areas are operated, during the period 2015 – 2019. The funds are advanced to the Group and then should be transferred to the joint-stock company Far East Grid Distribution Company ('DRSK'), who is to engage a contractor to build the relevant power supply infrastructure. The Group's responsibility under the Investment Agreement will be to monitor the progress and to report to the Russian Ministry of Far East Development. The Group will be taking ultimate responsibility for the construction of the power line. Upon completion, the Group will get access to the enhanced capacity of the power supply infrastructure in the region. Under the terms of the Investment Agreement, the Group has certain capital commitments, including further development of Albyn and Malomir mines.

As at 31 December 2015, the Group received RUB1.1billion (an equivalent to US$15.1 million) funds under the Investment Agreement.

## 34. Subsequent events

On 27 April 2016, the Group entered into an agreement with LLC GMD Gold ('GMD Gold') to set up a new enterprise whereby the Group will contribute the existing POX Hub assets (note 13) and GMD Gold will provide US$120 million finance towards completion of the POX Hub development. Upon completion of the POX Hub development, each party will have the right to use the 50% capacity of the POX Hub. This transaction will require shareholder approval.

On 28 April 2016, the Group entered into a contribution agreement to acquire 100% share in the LLC Amur Zoloto, a gold company with production and development assets in the Khabarovsk Region in the Far East of Russia. Upon completion, consideration for the transaction will be satisfied by the issue of new ordinary shares in the Company. This transaction will require shareholder approval.

## 35. Reconciliation of non-GAAP measures (unaudited)

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Loss for the period from continuing operations | (190,454) | (182,157) |
| Add/(less): | | |
| Interest expense | 71,514 | 67,705 |
| Investment income | (1,018) | (1,680) |
| Other finance gains | (9,064) | – |
| Foreign exchange losses | 11,952 | 31,270 |
| Taxation | 48,879 | 167,871 |
| Depreciation | 129,104 | 143,968 |
| Reversal of impairment of mining assets | – | (28,935) |
| Impairment of exploration and evaluation assets | 37,442 | 22,034 |
| Impairment of ore stockpiles | 17,425 | 10,144 |
| Impairment of investments in associates | – | 9,697 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less cost to sell | – | 11,867 |
| Share in results of associates [(a)] | 57,009 | – |
| Underlying EBITDA | 172,789 | 251,784 |

*(a) Group's share of interest expense, investment income, other finance gains and losses, foreign exchange losses, taxation, depreciation and impairment recognised by an associate (note 14).*

### 36. Principal subsidiaries and other significant investments

The Group has the following principal subsidiaries and other significant investments, which were consolidated in this financial information.

| | | | Proportion of shares held by Petropavlovsk PLC | | Proportion of shares held by the Group | |
|---|---|---|---|---|---|---|
| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | 31 December 2015 | 31 December 2014 | 31 December 2015 | 31 December 2014 |
| **Subsidiary** | | | | | | |
| JSC Management Company Petropavlovsk | Russia | Management company | 100% | 100% | 100% | 100% |
| Petropavlovsk 2010 Limited | Jersey | Finance company | 100% | 100% | 100% | 100% |
| JSC Pokrovskiy Rudnik | Russia | Gold exploration and production | 43.50% | 43.50% | 98.61% | 98.61% |
| JSC ZDP Koboldo | Russia | Gold exploration and production | – | – | – | 95.70% |
| LLC Malomirskiy Rudnik | Russia | Gold exploration and production | – | – | 99.86% | 99.86% |
| LLC Albynskiy Rudnik | 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% |
| JSC YamalZoloto | Russia | Gold exploration and production | – | – | 100% | 100% |
| LLC Iljinskoye | Russia | Gold exploration and production | – | – | 100% | 100% |
| LLC Potok | Russia | Gold exploration and production | – | – | 100% | 100% |
| LLC Temi | Russia | Gold exploration and production | – | – | 75% | 75% |
| LLC Migelit | Russia | Gold exploration and production | – | – | 98.61% | – |
| 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% |
| JSC ZRK Dalgeologiya | Russia | Exploration services | – | – | 98.61% | 98.61% |
| JSC PHM Engineering | Russia | Project and engineering services | – | – | 94% | 94% |
| JSC Irgiredmet | Russia | Research services | – | – | 99.69% | 99.69% |
| LLC NIC Gydrometallurgia | 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% | 100% |
| Pokrovskiy Mining College | Russia | Educational institute | – | – | 98.61% | 98.61% |
| **Associate** | | | | | | |
| JSC Verkhnetisskaya Ore Mining Company | Russia | Gold exploration and production | – | – | 49% | 49% |
| JSC ZRK Omchak [(a)] | Russia | Gold exploration and production | – | 25% | – | 25% |
| IRC Limited [(b)] | HK | Management and holding company | – | – | 35.83% | 45.39% |

*(a) Including subsidiary of JSC ZRK Omchak, being LLC Kaurchak.*

*(b) IRC Limited and its principal subsidiary and joint venture undertakings.*

| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | Proportion of shares held by Petropavlovsk PLC | | Proportion of shares held by the Group | |
|---|---|---|---|---|---|---|
| | | | 31 December 2015 | 31 December 2014 | 31 December 2015 | 31 December 2014 |
| **IRC and its principal subsidiary and joint venture undertakings ('IRC')** [(c), (d)] | | | | | | |
| IRC Limited | HK | Management and holding company | – | – | 35.83% | 45.39% |
| *Principal subsidiaries of IRC* | | | | | | |
| LLC Petropavlovsk Iron Ore | Russia | Management company | – | – | 35.83% | 45.39% |
| LLC Olekminsky Rudnik | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| LLC KS GOK | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| LLC Garinsky Mining & Metallurgical Complex | Russia | Iron ore exploration and production | – | – | 35.83% | 45.20% |
| LLC Kostenginskiy GOK | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| LLC Orlovo-Sokhatinsky Rudnik | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| JSC Giproruda | Russia | Engineering services | – | – | 25.18% | 31.90% |
| LLC SGMTP | Russia | Infrastructure project | – | – | 35.83% | 45.39% |
| LLC Amur Snab | Russia | Procurement services | – | – | 35.83% | 45.34% |
| Heilongjiang Jiatal Titanium Co., Limited | China | Titanium sponge project | – | – | 35.83% | 45.39% |
| LLC Uralmining | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| LLC Gorniy Park | Russia | Molybdenym project | – | – | 17.95% | 22.74% |
| *Joint ventures of IRC* | | | | | | |
| Heilongjiang Jianlong Vanadium Industries Co., Limited | China | Vanadium project | – | – | 16.48% | 20.88% |

*(c) 31 December 2014: After taking account of the 0.71% shares retained within the Employee Benefit Trust operated in conjunction with the long-term incentive schemes of IRC, the Group's effective interest in the equity of IRC is 45.72%.*

*(d) Factors considered in determining de facto control over IRC are set out in notes 3.8 and 27.*

### 37. Related undertakings of the Group

The Group consists of the parent company, Petropavlovsk PLC, incorporated in the United Kingdom and its subsidiaries, associates and joint ventures. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned as at 31 December 2015 is disclosed below. The Group's principal subsidiaries and other significant investments are set out in note 36.

| Name of undertaking | Country of incorporation | Proportion of shares held by the Group |
|---|---|---|
| **Subsidiaries** | | |
| Aricom B Finance Plc | UK | 100% |
| Aricom Finance UK Limited | UK | 100% |
| Aricom Treasury UK Limited | UK | 100% |
| Aricom Services Limited | UK | 100% |
| Aricom Roubles Treasury UK Limited | UK | 100% |
| Aricom B Limited | UK | 100% |
| Aricom B Roubles Treasury Limited | UK | 100% |
| Petropavlovsk Rouble UK Limited | UK | 100% |
| Eponymousco Limited | UK | 100% |
| Victoria Resources Limited | UK | 100% |
| Peter Hambro Mining Treasury UK Limited | UK | 100% |
| Peter Hambro Mining Rouble Treasury Limited | UK | 100% |
| Petropavlovsk 2010 Limited | Jersey | 100% |
| Petropavlovsk (Jersey) Limited | Jersey | 100% |
| Peter Hambro Mining Group Finance Limited | Guernsey | 100% |
| JSC Management Company Petropavlovsk | Russia | 100% |
| JSC Pokrovskiy Rudnik | Russia | 98.61% |
| LLC Malomirskiy Rudnik | Russia | 99.86% |
| LLC Albynskiy Rudnik | Russia | 100% |
| LLC Osipkan | Russia | 100% |
| LLC Tokurskiy Rudnik | Russia | 100% |
| LLC Rudoperspektiva | Russia | 100% |
| JSC YamalZoloto | Russia | 100% |
| LLC Iljinskoye | Russia | 100% |
| LLC Potok | Russia | 100% |
| LLC Temi | Russia | 75% |
| LLC Migelit | Russia | 98.61% |
| LLC Kapstroi | Russia | 100% |
| LLC NPGF Regis | Russia | 100% |
| JSC ZRK Dalgeologiya | Russia | 98.61% |
| JSC PHM Engineering | Russia | 94% |
| JSC Irgiredmet | Russia | 99.69% |
| LLC NIC Gydrometallurgia | Russia | 100% |
| LLC BMRP | Russia | 100% |
| LLC AVT-Amur | Russia | 49% |
| LLC Transit | Russia | 100% |
| Pokrovskiy Mining College | Russia | 98.61% |
| Major Miners Inc. | Guyana | 100% |
| Universal Mining Inc. | Guyana | 100% |
| Cuyuni River Ventures Inc. | Guyana | 100% |
| Peter Hambro Mining (Cyprus) Limited | Cyprus | 100% |
| Malomyrskiy Rudnik (Cyprus) Ltd | Cyprus | 100% |
| Voltimand Limited | Cyprus | 100% |

| Name of undertaking | Country of incorporation | Proportion of shares held by the Group |
|---|---|---|
| Horatio Limited | Cyprus | 100% |
| Yamal Holdings Limited | Cyprus | 100% |
| Sicinius Limited | Cyprus | 100% |
| Syncrom High Corporation Ltd | Cyprus | 100% |
| Cayiron Limited | Cayman Islands | 100% |
| | | |
| **Associates** | | |
| JSC Verkhnetisskaya Ore Mining Company | Russia | 49% |
| IRC Limited | HK | 35.83% |
| *Subsidiaries of IRC* | | |
| LLC Petropavlovsk Iron Ore | Russia | 35.83% |
| LLC Olekminsky Rudnik | Russia | 35.83% |
| LLC KS GOK | Russia | 35.83% |
| LLC Garinsky Mining & Metallurgical Complex | Russia | 35.68% |
| LLC Kostenginskiy GOK | Russia | 35.83% |
| LLC Orlovo-Sokhatinsky Rudnik | Russia | 35.83% |
| JSC Giproruda | Russia | 25.18% |
| LLC SGMTP | Russia | 35.83% |
| LLC Amur Snab | Russia | 35.89% |
| LLC Uralmining | Russia | 35.83% |
| LLC Gorniy Park | Russia | 17.95% |
| LLC Garinskaya Infrastructure | Russia | 35.83% |
| LLC TOK | Russia | 35.83% |
| Lucilius Investments Limited | Cyprus | 35.83% |
| Kapucius Services Limited | Cyprus | 35.83% |
| Lapwing Limited | Cyprus | 35.68% |
| Russian Titan Company Limited | Cyprus | 35.83% |
| Brasenose Services Limited | Cyprus | 35.83% |
| Tenaviva Limited | Cyprus | 35.83% |
| Esimanor Limited | Cyprus | 35.83% |
| Metellus Limited | Cyprus | 35.83% |
| Dardanius Limited | Cyprus | 35.83% |
| Rumier Holdings Limited | Cyprus | 35.83% |
| Guiner Enterprises Limited | Cyprus | 35.83% |
| Expokom Limited | Cyprus | 35.83% |
| Arfin Limited | Cyprus | 35.83% |
| Caedmon Limited | Cyprus | 17.95% |
| Thorholdco (Cyprus) Limited | Cyprus | 35.83% |
| Heilongjiang Jiatal Titanium Co., Limited | China | 35.83% |
| Ariti HK Limited | Hong Kong | 35.83% |
| Ariva HK Limited | Hong Kong | 35.83% |
| Thorrouble Limited | Cayman Islands | 35.83% |
| Thordollar Limited | Cayman Islands | 35.83% |
| Thorholdco Limited | Cayman Islands | 35.83% |
| Aricom UK Limited | UK | 35.83% |
| Aricom Limited | UK | 35.83% |
| *Joint ventures of IRC* | | |
| Heilongjiang Jianlong Vanadium Industries Co., Limited | China | 16.48% |

# Company Balance Sheet

At 31 December 2015

| | note | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| Fixed assets | | | |
| Tangible assets | | 87 | 54 |
| Investments | 3 | 776,214 | 624,436 |
| | | 776,301 | 624,490 |
| Current assets | | | |
| Derivative financial assets | | – | 3,158 |
| Debtors: due within one year | 4 | 305,346 | 254,465 |
| Debtors: due after one year | 4 | 598,389 | 598,389 |
| Cash at bank and in hand | | 4,966 | 2,756 |
| | | 908,701 | 858,768 |
| Creditors: amounts falling due within one year | 5 | (493,562) | (319,119) |
| Net current assets | | 415,139 | 539,649 |
| Total assets less current liabilities | | 1,191,440 | 1,164,139 |
| Derivative financial liability | | (14,684) | – |
| Creditors: amounts falling due after more than one year | 5 | (566,631) | (565,676) |
| Net assets | | 610,125 | 598,463 |
| Capital and reserves | | | |
| Share capital | | 48,874 | 3,041 |
| Share premium | | 518,142 | 376,991 |
| Own shares | | (12,685) | (12,677) |
| Convertible bond reserve | | – | 48,235 |
| Other reserves | | (2,500) | 29 |
| Profit and loss account | | 58,294 | 182,844 |
| Shareholders' funds | | 610,125 | 598,463 |

The accompanying notes are an integral part of this balance sheet.

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 176 to 180 were approved by the Directors on 28 April 2016 and signed on their behalf by

**Peter Hambro**
Director

**Andrey Maruta**
Director

# Company Statement of Changes in Equity

For the year ended 31 December 2015

| | 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 2014 | 3,041 | 376,991 | 19,265 | 48,235 | (12,677) | 19,320 | 237,728 | 691,903 |
| Loss for the year, including transfer from merger reserve | – | – | (19,265) | – | – | – | (75,711) | (94,976) |
| Share based payments | – | – | – | – | – | 1,546 | – | 1,546 |
| Awards within Petropavlovsk PLC LTIP forfeited | – | – | – | – | – | (12,153) | 12,153 | – |
| Revaluation of available-for-sale investments | – | – | – | – | – | (10) | – | (10) |
| Transfer to retained earnings | – | – | – | – | – | (8,674) | 8,674 | – |
| Balance at 1 January 2015 | 3,041 | 376,991 | – | 48,235 | (12,677) | 29 | 182,844 | 598,463 |
| Loss for the year | – | – | – | – | – | – | (175,755) | (175,755) |
| Rights issue and settlement of the Existing Bonds [b] | 45,833 | 141,151 | – | (48,235) | (8) | – | 48,235 | 186,976 |
| Deferred share awards | – | – | – | – | – | 280 | – | 280 |
| Revaluation of available-for-sale investments | – | – | – | – | – | 161 | – | 161 |
| Transfer to retained earnings | – | – | – | – | – | (2,970) | 2,970 | – |
| Balance at 31 December 2015 | 48,874 | 518,142 | – | – | (12,685) | (2,500) | 58,294 | 610,125 |

*(a) On 15 February 2010, Petropavlovsk 2010 Limited issued US$380 million bonds ("Existing Bonds") which were convertible into redeemable preference shares in Petropavlovsk 2010 Limited and were guaranteed by, and were exchangeable immediately upon issuance, for ordinary shares in Petropavlovsk PLC. The Company recognised the exchange option in equity, and its value was determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount was not subsequently re-measured. The provision of the exchange option to Petropavlovsk 2010 Limited was recognised as a capital contribution to that entity. Upon settlement of the Existing Bonds, the associated US$48 million convertible bond reserve was transferred to retained earnings.*

*(b) Note 2 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 share awards. Details of the Group's share based payments are set out in note 29 to the 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.*

# Notes to the Company Financial Statements

For the year ended 31 December 2015

**1. Basis of preparation**
The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the Company has changed its accounting framework from UK GAAP to FRS 101 as issued by the Financial Reporting Council and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have had a material effect on the financial statements; as such no material adjustments have been recognised to restate the prior year financial statements on adoption of FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

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$175.8 million (2014: loss after tax of US$95.0 million).

**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 2.7 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 |

Useful lives and residual values are reviewed at the end of every reporting period.

**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 taxable temporary 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. 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.

**2.8. Dividends**
Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

**2.9. 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 2015 | 1,830,255 | 9,574 | 106 | 1,839,935 |
| Additions | 322,106[a] | – | – | 322,106 |
| Disposals | – | (9,574) | – | (9,574) |
| Impact of intra-group transfers | (19,137) | – | – | (19,137) |
| Fair value change | – | – | 161 | 161 |
| At 31 December 2015 | 2,133,224 | – | 267 | 2,133,491 |
| Provision for impairment | | | | |
| At 1 January 2015 | (1,206,925) | (8,574) | – | (1,215,499) |
| Charge for the year | (150,352)[b] | – | – | (150,352) |
| Disposals | – | 8,574 | – | 8,574 |
| At 31 December 2015 | (1,357,277) | – | – | (1,357,277) |
| Net book value | | | | |
| At 1 January 2015 | 623,330 | 1,000 | 106 | 624,436 |
| At 31 December 2015 | 775,947 | – | 267 | 776,214 |

*(a) Including a US$309.2 million investment in Petropavlovsk 2010 Limited as part of the Refinancing (note 2 to the consolidated financial statements).*

*(b) Including a US$108.1 million adjustment to reflect changes in the value of the underlying investment in IRC Limited (note 14 to the consolidated financial statements) and a US$27.6 million adjustment to reflect changes in the value of the underlying investment in Visokoe exploration and evaluation asset (note 6 to the consolidated financial statements).*

## 4. Debtors

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Owed by Group companies | 901,392 | 843,592 |
| VAT recoverable | 2,055 | 560 |
| Other debtors | 288 | 8,702 |
| | 903,735 | 852,854 |
| Due within one year | 305,346 | 254,465 |
| Due after more than one year | 598,389 | 598,389 |
| | 903,735 | 852,854 |

## 5. Creditors

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Due to Group companies | 626,080 | 399,149 |
| Bank loans | 430,256 | 481,662 |
| Trade creditors | 647 | 2,898 |
| Accruals and other creditors | 3,210 | 1,086 |
| | 1,060,193 | 884,795 |
| | | |
| Due within one year | 493,562 | 319,119 |
| Due after more than one year | 566,631 | 565,676 |
| | 1,060,193 | 884,795 |

### 6. Taxation

As at 31 December 2015, the Company has tax losses available to carry forward in the amount of US$163.2 million (2014: US$152.9 million).

### 7. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain Group undertakings. Please also see notes 14 and 27 to the consolidated financial statements.

### 8. 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:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Expiring: | | |
| Within one year | 383 | 313 |
| Within two to five years | 1,148 | 94 |
| | 1,531 | 407 |

### 9. Directors' remuneration

There were three Executive Directors who held office at the end of the year (2014: six Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 95 to 110 of this Annual Report.

### 10. Subsequent Events

Please see note 34 to the consolidated financial statements.

# Appendix, Glossary and Definitions

For the year ended 31 December 2015



**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.

**Ore Reserve and Mineral Resource reporting – basis of preparation**
In line with the approach adopted in previous years, the Group has reported its hard-rock Mineral Resources and Ore Reserves in accordance with JORC Code. The assets are subdivided into 'core' and 'non-core' projects. Core projects are classified as the Group's four operational mines, namely: Pokrovskiy, Pioneer, Malomir, Albyn and all their satellites which are scheduled for production through the mines' existing processing facilities. Mineral Resource and Ore Reserve estimates for these assets have been audited by WAI in accordance with JORC Code (2012).

The Group considers its 'non-core' projects to be those assets which have good prospects, but are not located near current processing facilities. These include: Tokur (Amur Region), Visokoe (Krasnoyarsk) and Yamal assets (the Petropavlovskoe-Nogodnee Monto deposits). Mineral Resources and, where appropriate, Ore Reserves for these projects have not changed since 2011. These estimates has not been updated and therefore reported in accordance with JORC Code (2004), which was the current version of the Code at the time of the estimates. The estimates where reviewed and signed off by WAI in March 2011 (Yamal, Tokur) and February 2012 (Visokoe).

| | |
|---|---|
| **All-in sustaining cash costs** | all-in sustaining cash costs include both operating and capital costs required to sustain gold production on an ongoing basis. All-in costs are comprised of all-in sustaining costs as well as capital expenditures for major growth projects or enhancement capital for significant improvements at existing operations. All-in sustaining costs and all-in costs are calculated in accordance with guidelines for reporting all-in sustaining costs and all-in costs published by the World Gold Council in June 2013. For a calculation of all-in-sustaining costs and all-in costs, please refer to the section All-in costs of the Chief Financial Officer's Statement |
| **alluvial** | material that is transported by a river and deposited at points along the flood plain and river bed. The material may contain economical placer deposits of gold and other valuable minerals |
| **Au** | chemical symbol for the element gold |
| **autoclave** | equipment used in the pressure oxidation process to enable gold extraction from refractory ores |
| **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 |
| **Bondholder** | depending on the context, either holders of the Group's outstanding US$310.5 million 4% guaranteed convertible bonds which expired on 18 March 2015, or holders of the Group's new US$100 million 9% convertible bonds due 2020, which were issued as part of the Refinancing |
| **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 that measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies |
| **g/t** | gram per metric tonne |
| **grade** | relative quantity or 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 via conventional methods from the solution |
| **HSE Committee** | Health, Safety and Environmental Committee |
| **ICBC** | Industrial and Commercial Bank of China |
| ***Indicated* Resource** | as defined in the JORC Code, the part of a mineral resource that 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, the 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 |
| **IRC** | IRC Limited, the Hong Kong-listed former subsidiary, now associate, of the Group. Petropavlovsk remains a major shareholder |
| **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 |
| **OHS/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 that 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) |
| **overburden** | material that lies above the ore deposit |
| **placer deposit** | see entry for 'alluvial' |
| **pressure oxidation (POX)** | a high temperature and pressure process in which refractory ores (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 of 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 |
| **Refinancing** | the Rights Issue, the Bond Restructuring and the Bank Waivers, as defined in the Prospectus issued by the Company on 2 February 2015 |
| **refractory ore** | ore material that is difficult to treat for recovery of the valuable element. Refractory gold ore requires additional treatment such as pressure oxidation (POX), roasting or bio-oxidation for efficient processing and gold recovery |
| **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 indicates their comparative importance for the national economy |
| **stockpile** | an accumulation of ore or mineral formed to create a reserve for loading, for when demand slackens or for 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 |

| | |
|---|---|
| **TTC/oz** | total cash costs per ounce of gold sold |
| **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 |

# Shareholder Information

**Shareholder queries**
The Company's share register is maintained by the Company's Registrar, Capita Asset Services. Shareholders with queries relating to their shareholding should contact Capita directly using one of the methods listed below.

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone Helpline: 0871 664 0300

If shareholders have any questions, please call Capita on 0871 664 0300. Calls cost 12 pence per minute plus the phone company's access charge. Shareholders outside the United Kingdom, should call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The Capita helpline is open between 9.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Online: shareholderenquiries@capita.co.uk (from here you will be able to email Capital with your enquiry).

For more general queries, shareholders should consult the 'Investors' section of the Company's corporate website.

**Managing your shares online**
Shareholders can manage their holdings online by registering with Capita's share portal service. This is an online service provided by Capita which enables you to view and manage all aspects of your shareholding securely. The service is free and available 24/7 at your convenience. Shareholders, whose shares are registered in their own name, can:

– view holdings plus indicative price and valuation
– view movements on your holdings
– view dividend payment history
– change your address
– register or change your email address
– sign up to receive communications by email instead of post
– access the online voting service.

**Useful contacts**

**Petropavlovsk Registered Office**
11 Grosvenor Place
Belgravia
London SW1X 7HH
Telephone +44 (0) 20 7201 8900

Registered in England and Wales (no. 4343841)

Online for general queries:
contact@petropavlovsk.net

**Group Head of External Communications**
Dr Alya Samokhvalova

**Company Secretary**
Amanda Whalley ACIS

**Additional documents**
Shareholders are encouraged to sign up to receive news alerts by email. These include all of the financial news releases throughout the year that are not sent to Shareholders by post.

The Directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under the relevant accounting standards and legislation.

**Annual General Meeting 2015**
This year's Annual General Meeting (AGM) will be held at 3 More London Riverside, London SE1 2AQ. The meeting is on 28 June 2016, commencing at 1 p.m. Shareholders who wish to attend the AGM are asked to read the accompanying notes to the Notice of the Meeting which explain the documentation required by Shareholders in order for them to gain entry to the meeting.

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