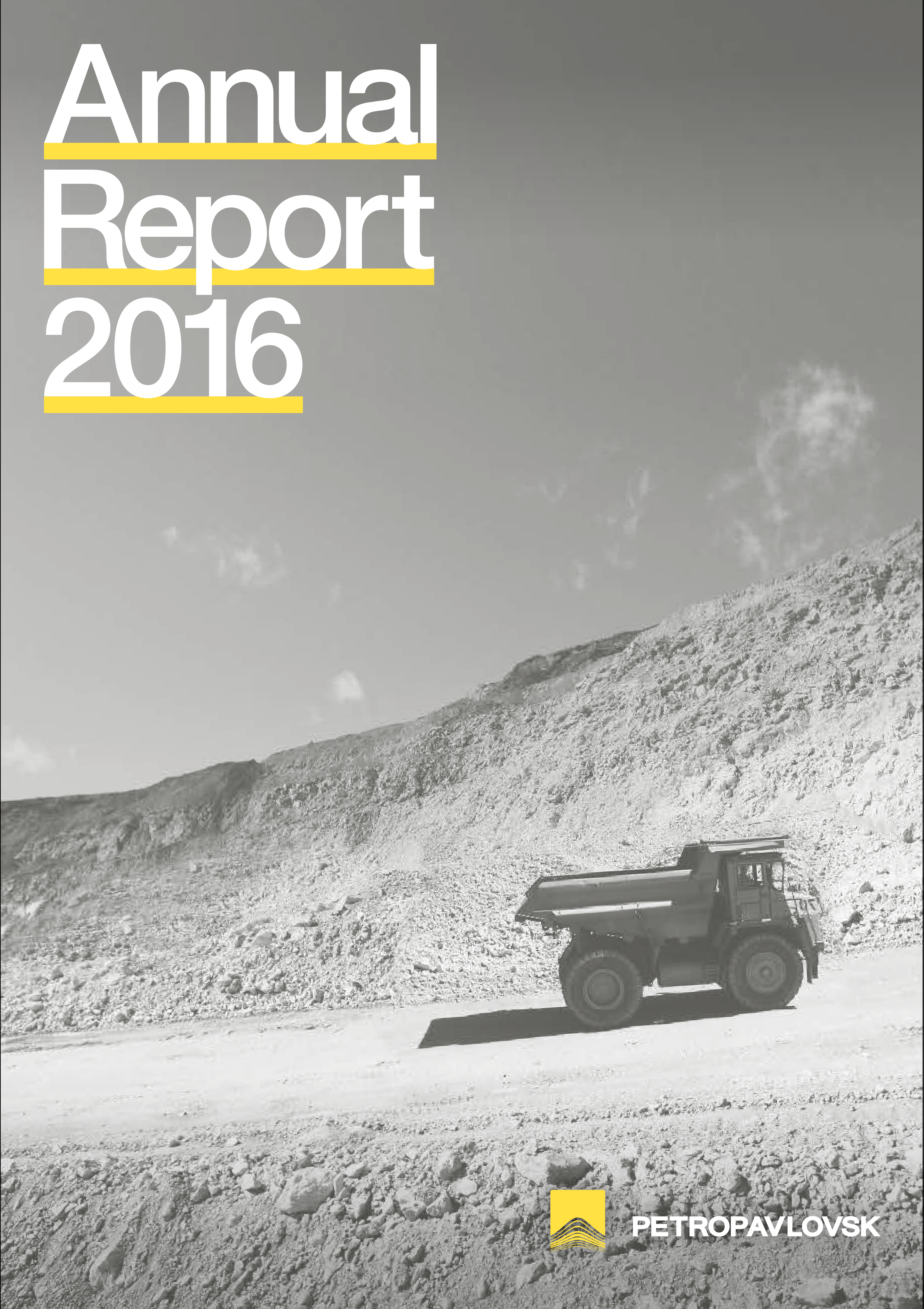
Annual Report 2016



PETROPAVLOVSK

Investment case

Solid foundations. Building for the future.

Petropavlovsk PLC is an established, bulk tonnage, low cost gold exploration, development and mining company listed on the London Stock Exchange.

Near term strategy

Maximising free cash flow from our solid and stable producing non-refractory operations to fund future growth development and generate shareholder returns.

- 4 x open pit gold mines
- 6.3Moz produced since 1999
- 20.16Moz of JORC Resources including 7.95Moz of Reserves
  - implying a greater than 15 year life of mine[1]
- Sustainable long term production >450,000 ounces per annum
- 16.2Mtpa of RIP capacity (4 x RIP plants)

Medium term strategy

Optimal extraction from accessing our full asset base. Sustainable long term refractory and non-refractory production from the POX Hub and RIP plants respectively, with ongoing resource and production growth upside from high grade underground operations and highly prospective exploration prospects within the combined 3,600km² license holding.

- 3 x open pit mines
- 2 x underground mines
- 14.5Mtpa of RIP capacity (3x RIP plants)
- 500ktpa POX Hub processing refractory concentrate
- Malomir and Pioneer combined 11.4Mtpa flotation capacity

Long term strategy

The underlying objective is to transfer enterprise value from debt to equity holders, deleveraging via production growth, resource growth and disciplined cost structure.

1 Assuming completion of the POX Hub, scheduled for commissioning from Q4 2018.

Solid foundations for sustainable growth

Pox highlights

Building for the future

Petropavlovsk's POX Hub will be the second of its kind in Russia.

2016 was a landmark year with the recommencement of this core growth project. With our existing 4.1Moz refractory ore reserves, the scheduled commissioning of POX in Q4 2018 will be transformative for the Group, as demonstrated by the robust updated project economics as of end of 2016, in line with current assumptions and development capex.

Project construction is currently 65% complete and we look forward to updating you on key milestones throughout the project build and commissioning.

Project highlights

Capacity	No. of Autoclaves	Refractory Reserves and Resources
500Ktpa (design commissioning Q418)	**4**	4.1Moz Reserves and 9.3Moz Resources

Project NPV (10%)	Project IRR	Project Payback
US$603m	**65%**	**3.25 years** (Assuming LT avg gold price US$1,200/oz, FX USD:RUR 60)

Operating Parameters (based on Malomir concentrate)

Mass pull	Concentrate grade	Sulphur content	Total avg gold recovery
5.5% mass	**24 g/t Au**	**24.9%**	**79%**

Operating Parameters (based on Pioneer concentrate)

Mass pull	Concentrate grade	Sulphur content	Total avg gold recovery
2.9% mass	**24 g/t Au**	**21.0%**	**80%**

Est. cash cost (Malomir)	Est. cash cost (Pioneer)
US$615-675/oz	**US$785-865/oz**

Please refer to Development Projects on pages 44 to 47, for more information.

Highlights

Key financial figures

Revenue	Total Cash Costs	All In Sustaining Costs	Underlying EBITDA	Net Profit/(loss)
US$540.7m	**US$660/oz**	**US$807/oz**	**US$200.1m**	**US$31.7m**
(2015: US$599.9m)	(2015: US$749/oz)	(2015: US$874/oz)	(2015: US$172.8m)	(2015: US$(297.5m)

Our core assets

Pioneer

Licence area: c. 1,280km^2

R&R: 5.52Moz >15year LOM

FY16 142koz Au @ AISC US$789/oz

Open pit (underground development)

Processing capacity:
6.7Mtpa RIP plant and heap leach

Albyn

Licence area: c. 1,168km^2

R&R: 4.77Moz >15year LOM

FY16 180koz Au @ AISC US$719/oz

Open pit

Processing capacity:
4.7Mtpa RIP plant

Malomir

Licence area: c. 821km^2

R&R: 7.06Moz implied >16 year LOM

FY16 57koz Au @ AISC US$1,004/oz

Open pit (underground development)

Processing capacity:
3.0Mtpa RIP plant

Pokrovskiy

Licence area: c. 336km^2

R&R: 1.39Moz Transitioning into the strategic location for the POX Hub

FY16 38koz Au @ AISC US$988/oz

Open pit

Processing capacity:
1.8Mtpa RIP plant and heap leach

Development projects

POX Hub

Transformative growth project unlocking 9.3Moz Mineral Resource base. POX Hub construction currently 65% complete. Malomir flotation plant (Stage 1) construction 90% complete. Key contracts have been signed with Outotec and critical long lead item orders placed. Staged commissioning from Q4 2018.

Underground Mine Development

Pioneer, NE Bakhmut
Total 299koz underground Mineral Resource, a 300% increase from 2015. 675m decline development completed, including ventilation decline. First production Q2 2017.

Malomir, Quartzitovoye
Total 283koz underground Mineral Resource, including 207koz Ore Reserve. Development has commenced Q1 2017.
First production H2 2017.

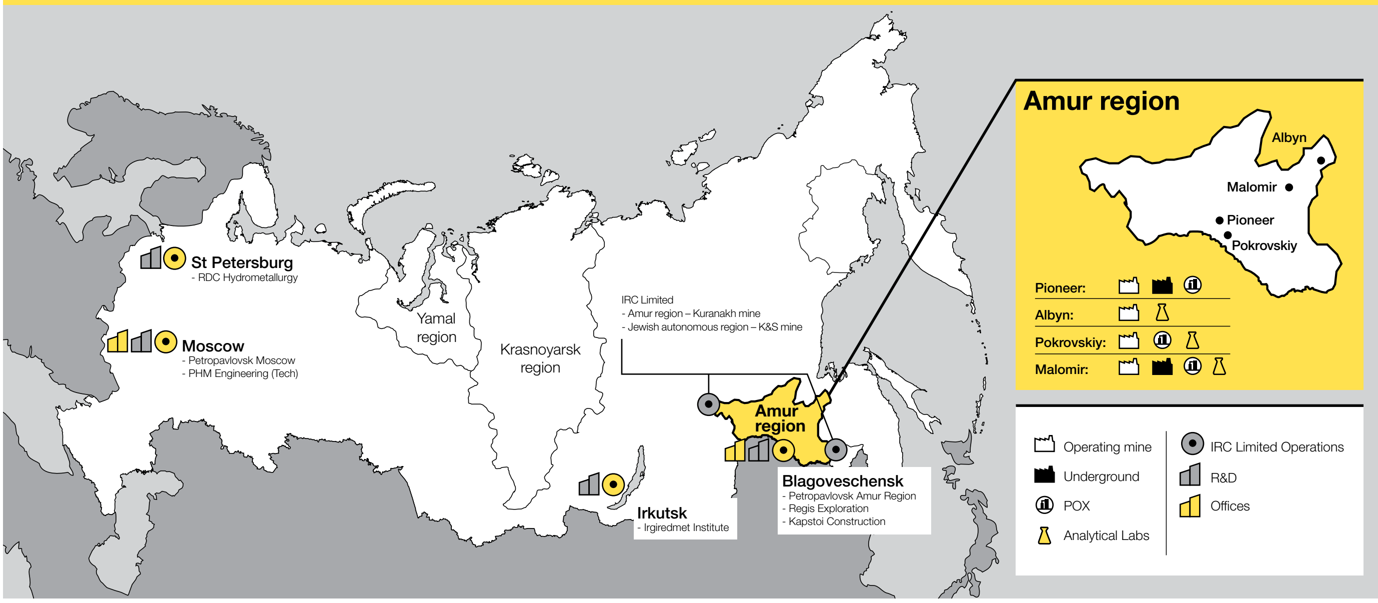
Exploration projects

Pioneer: NE Bakhmut underground resource and exploration drilling. Sosnovaya greenfield anomalies identified.

Albyn: Elginskoye in fill drilling, Unglichikan resource drilling and Yasnoye exploration surveying.

Malomir: Quartzitovoye underground resource and exploration drilling.

Russian Federation



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Our Business Model

Our Values

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- Excellence

Strategic Objectives

- Sustainable cash generation
- Focus on optimisation and cost control
- Growth via exploration and development
- HSE and Social Responsibility

Our Strengths

- Quality of assets
- Knowledge and experience
- Highly skilled workforce
- Location and infrastructure
- Responsible mining

Our Business Cycle

Explore & Evaluate	We aim to replenish, expand and improve our resource base through brownfield and greenfield exploration. Our experienced exploration team has a proven track record of identifying, exploring and appraising high value deposits.
Develop	We create value and drive future growth by developing our mines in a responsible and efficient manner, using our extensive in house expertise to maximise return on investment.
Mine and Process	Our operating experience allows us to achieve optimal gold extraction, which coupled with industry leading expertise in processing technologies is conducive to healthy profit margins.
Gold	Gold doré bars are our end product. These are sent to refineries for smelting into bullion. Currently all our production is sold to Russian banks.
Mine Closure and Rehabilitation	We integrate closure planning throughout the asset life cycle, ensuring prudent valuing and responsible environmental compliance. We have a strong reputation for sustainable and responsible development of mines throughout the production cycle.

Chairman's Statement

Peter Hambro

At the end of another busy year, it is a pleasure to be able to say that Petropavlovsk has achieved in 2016 many of the goals that I set out in my Chairman's Statement for 2015, and a pleasure to introduce you to our 2016 Annual Report and Accounts. It was, indeed, a transformative year, not least because the Group returned to profitability. Our net profit increased by 111%, much of which was accomplished thanks to a 4th consecutive year of cost reduction in addition to reduction in impairment losses in IRC, and, with IRC becoming an associate to the Group, limiting exposure to their results to our ownership. We must thank the efforts of all concerned to maintain a disciplined focus on cost control, in turn enabling us to maximise the margin on which our success depends, though cost control by itself will not deliver profit. I am pleased to note that production from our established open pit operations was in line with our revised guidance, delivering the sustainable cash flow that my 2015 statement hoped for.

Following the 2015 capital restructure, our team began the refinancing process with our Russian lenders. In this task, we needed to get the banks to extend the maturity profile of their loans to us so that the new maturity profile would match our production. I am pleased to say that this was achieved successfully and that the banks, understanding the importance of our plans to restart the POX Hub project for the treatment of refractory ore, agreed to encompass the capital expenditure that this would involve in nearby years. This allows us to unlock 100% of the value otherwise encapsulated in the c.4 million ounces of gold reserves in the quartz/sulphur matrix that is refractory ore. We continue to expect that the cost per ounce to produce this will not be significantly different from those we have seen in our non-refractory operations.

The POX Hub remains our core organic growth development project and key value driver for the business. The bank refinancing, while increasing near term capex for the Company, means that we no longer needed to give away part of the value in the POX Hub. Construction is 65% complete and scheduled for commissioning in Q4 2018. In 2016, we also took our first steps underground, a natural progression for us as a hitherto open pit operation with a vast refractory reserve and resource base. Both Pioneer and Malomir licences host sources of high grade ore and the feasibility work supported operations.

Our corporate strategy is to create value for equity investors by growing our sustainable cash flows and to do this by continuing our efficient and successful exploration and development programmes. It remains our intention to deliver a meaningful share of the cash flow to shareholders as soon as the debt burden is substantially reduced. The advent of our underground operations in the nearest future and that of our production from refractory ore is scheduled to do this.
The team needs us to maximise the benefits inherent in our high quality assets – both material and personal, using the excellence and experience that is demonstrated by management's track record.

Reserves and resources, tonnes and grade are the watchwords of the gold mining industry and we have updated you accordingly. 2016 exploration has brought considerable infill success, including a 340% increase in Reserves at the Elginskoye/Albyn complex, approximately a 200% increase in underground Resource at Pioneer, as well as a brand new greenfield discovery between Pokrovskiy and Pioneer.

2016 was also a significant year for IRC, the iron ore producer on the Chinese border in which our company holds a 31% stake, and whose borrowings from ICBC we guarantee. Following a challenging period, I am delighted to say that, as of its first quarter's results, it is now a cash generative operation and our shareholding in IRC is, in my view, of significant potential value to the Company. I am very grateful to our team, the financiers at ICBC and Sinosure, and the contractor CNEEC, for the way in which the issues were finally resolved.

With the refinancing and rescheduling of our bank debt behind us and the excellent prospects for underground mining, the pressure oxidation of refractory ore and the new discoveries of gold ahead of us, I feel confident about our long term plans; particularly so at today's higher gold prices, even though we have protected ourselves by some 600,000 ounces of price hedging. Indeed so confident am I that the Board and I have felt it appropriate now to address the succession planning issues that our Board Review has highlighted.

Petropavlovsk is unique in being a British company with a London Board and with all its assets located in the Russian Federation and managed and operated by local people. Having managed the London end of this business for 23 years, with Pavel Maslovskiy running the Russian end, in good times and in bad, I have a clear understanding of what is involved and realise that passing on the baton will not be an easy task. As is usual in such matters, the Board has decided that the task of advancing succession matters should be undertaken by the Nomination Committee. This is in progress: Alex Green has joined Andrew Vickerman and Robert Jenkins on this Committee and I will retire from the Committee and as its Chairman.

I should like to thank Robert Jenkins for taking over the role of Senior Independent Director from Sir Roderic Lyne and also to thank my other colleagues on the Board for the time and effort they have devoted to the company during the year. In addition, and on behalf of my colleagues, I want to thank the executives, the managers and all the teams that have contributed to the success of 2016.

Peter Hambro
Chairman

"Our corporate strategy is to create value for equity investors by growing our sustainable cash flows and to do this by continuing our efficient and successful exploration and development programmes."

Chief Executive Officer's Statement

Pavel Maslovskiy

2016 was a transformational year for Petropavlovsk shaped by the refinancing of our bank debt, enabling the construction ramp up of our landmark POX Hub. The business returned to profitability, as supported by a fourth consecutive year of cost reductions and the operational progression into underground mining as we access the high grade reserve and resource potential that extends below our existing pits, further sustaining our long life of mine.

Solid Foundation
Our established, bulk tonnage, open pit non-refractory operations enabled us to deliver total annual production of 416koz, in line with revised guidance. Unexpected weather conditions experienced throughout the year intermittently impaired mining and in particular access to scheduled high grade ore at Andreevskaya. These ounces were deferred to the 2017 mine plan and require increased blending of lower grade stockpile material. This resulted in a 20% reduction in average processed grade from 2015. Cost control and operational efficiencies remain critical to our strategy. Without these we would not have been able to deliver another year of reduced costs:

- TCC of US$660/oz, a 12% reduction on 2015 and below our US$700/oz 2016 guidance
- AISC of US$807/oz, an 8% reduction on 2015 and in line with 2016 guidance.

This marked the fourth consecutive annual reduction in TCC and AISC representing a 35% reduction since 2013, due to cost optimisation measures and the positive effect of Rouble depreciation.

In 2016, the Resin-in-Pulp (RIP) plants operated at full capacity with Group throughput of 16.2Mt, a 2% increase on 2015. The responsible optimisation of productivity and operational efficiency remains central to our way of working. As such, following extensive research and testing throughout the year, we implemented a dedicated resin treatment facility at Pokrovskiy designed to improve the processing efficiency of the resin sorption at the Group "RIP" plants. We expect this to significantly reduce the impact of gold in circuit, thereby increasing productivity.

In 2016, our solid and stable asset base and operational excellence allowed us to generate positive operational cash flows and return to profitability. We achieved net profit of US$31.7m, resulting to a large extent from the higher profitability of our operations and the reduced impact from IRC. Underlying EBITDA was US$200.1 million, an improvement of 16% on 2015 due to maximised margins.

Underpinning our business model is our exploration success in unlocking the abundant gold potential within our 3,600km^2 licence holding. Our current 20.2Moz Resource, supporting a greater than a 15 year life of mine, demonstrates our value in investing in our long term sustainability.

Targeted exploration on replenishing depleted ounces, resource to reserve conversion and exploring brownfield near term non-refractory potential was very successful in 2016. We converted 1.6Moz of Resources to Reserves of which the majority were at our 100% non-refractory Albyn mine, Elginskoye deposit. Instrumental to our strategic growth objectives, we defined our first underground Reserve of 370koz, underpinning an initial 6 year life of mine at both Pioneer and Malomir.

Building for the Future
It is important to remember that Petropavlovsk's foundations lie at Pokrovskiy, acquired in the early stages of exploration in 1994 and which subsequently became the backbone of the Group. As the mine nears the end of its reserve life, we made the strategic decision to develop it into the base for the POX Hub. Its excellent operational infrastructure, skilled labour, proximity to regional infrastructure and access to naturally occurring limestone drove our decision.

The refinancing of our $530m bank debt was paramount to the achievements of 2016 and has opened up future opportunities. With the agreement that Petropavlovsk retained 100% of the value of our core growth project, the POX Hub, my colleagues and our partners, Sberbank and VTB, successfully extended the debt maturity profile in line with our production profile thereby enabling us to fund development out of free cash flows (assuming a prevailing gold price of $1,250/oz).

Unlocking the 4Moz refractory Reserves embedded within our existing asset base, equivalent to approximately 50% of our current Ore Reserves, represents meaningful value to Petropavlovsk. Following the refinancing, together with independent consultants, we updated our project economics, giving an IRR of 65% and NPV[10] of US$603 million, adding a minimum of 200koz per annum to our production profile at a steady rate.

At Malomir, currently our smallest mine by production (57koz in 2016), completing the POX Hub will grow its production profile to make it the largest contributing Group asset by 2019 with a falling cost trajectory in line with current group operating costs of c. US$700/oz.

Development progresses at full scale and is currently under budget. In 2016, Outotec contracts were reinitiated and orders for long lead items placed. Flotation concentrate production is scheduled to commence at Malomir from H1 2018 for trucking and stockpiling ahead of the POX Hub commissioning from Q4 2018.

Expanding our Expertise

Prior to 2016, Petropavlovsk was an exclusively open pit operation. Following successful feasibility studies, the development of our first underground mine at Pioneer began in 2016, with development at Malomir scheduled to commence early 2017. First production is scheduled for H2 2017. We have appointed contractors and development is under way, with 675m of decline development completed at Pioneer by year end.

By and large, Petropavlovsk has utilised an owner operator business model. However, given underground is a new mining method, with start up execution risk, we have utilised well respected local contractors to mitigate this risk during the development growth phase. Notwithstanding the long history of underground mining in the Amur region, access to highly skilled labour and existing expertise within the Group, we intend to bring the underground operational function in house over time.

Our extensive regional experience in gold mining, not only within Russia but specifically the Amur region, gives us a competitive edge in a complex marketplace. We have established our presence as a leading employer and contributor to the local economy, nurturing the talent of its people, who in turn have built Petropavlovsk into the business it is today. Senior management, a number of whom have worked for Petropavlovsk for more than a decade, have extensive technical expertise. Together with our larger in house exploration, construction, research and engineering capabilities, we have established our strategic vision of being a fully integrated operating gold miner.

Positioning for Growth

With the development of our POX Hub and underground firmly underway, as we emerge from a period of introspection and optimistically look ahead, 2017 is set to be another pivotal building block towards achieving our vision of being a mid tier producer of refractory and non-refractory ore from 2019.

I would like to thank the Board and our stakeholders for their guidance in 2016. Further, I would like to thank the management team for their commitment, strength of character and ability to effectively navigate the challenges of the last few years enabling us to reach this juncture.

We look forward to sharing our key milestones throughout this next phase of growth, while maintaining our devoted commitment to maximising sustainable margins in 2017.

Pavel Maslovskiy
Chief Executive Officer

"The responsible optimisation of productivity and operational efficiency remains central to our way of working."

Market Overview

A positive albeit unremarkable performance for gold in 2016
Gold returned +8% in 2016, starting the year at US$1,060/oz and closing at US$1,146/oz. The precious metal traded in a range between US$1,060/oz – US$1,366/oz, averaging US$1,248/oz during the year, +8% vs. 2015 (US$1,160/oz). On a relative basis, although gold outperformed platinum (+3%), its performance could not match the gains achieved by silver (18%), palladium (21%) and the Bloomberg Commodity Index (+11%).

Lower jewellery and tech demand easily balanced by higher investment demand
Global gold demand amounted to c.139Moz in 2016, up 2% vs. 2015 (c.136Moz), with lower jewellery and technology demand more than offset by investment demand. On a combined basis, China (down 17% vs. 2015) and India (down 22% vs. 2015), accounted for over half of global jewellery demand. One possible explanation is that a rising gold price, combined with local currency depreciation vs. the US$, made buying gold more expensive, dampening its appeal. In India specifically, Q1 2016 demand was affected by a six week nationwide jewellers' strike due to the government's proposal to impose a 1% tax on gold jewellery sales, followed by the surprise demonetisation of 1,000 and 500 rupee notes announced in Q4 2016, further disrupting economic activity.

Investment demand for gold has overshadowed the weakness in physical demand this year
Investment demand jumped 70% in 2016, driven primarily by robust Exchange Traded Funds (ETF) inflows, although appetite for bars and coins did not change materially from 2015. According to data compiled by UBS, ETFs added c.15Moz to their holdings, finishing 2016 at c.65Moz. The market saw strong ETF demand in H1, slowing in H2 with some outflows seen towards the end of Q4, in part due to some post-US election profit taking. Nonetheless, the robust ETF demand lends support to the view that a lot of the flow this year represents strategic allocation into gold, hinged on the view of lower rates for longer.

Investment demand drivers included negative interest rates, sluggish global growth, unknown Brexit consequences, uncertainty surrounding the US elections, heightened macro uncertainty, as well as deteriorating confidence towards central banks. This combination of factors lent upward support to price action well into Q3 2016, suggesting that gold is still considered an effective portfolio diversification tool.

China saw its share of bar and coin demand increase by 25% vs. 2015 to c.9Moz as consumers digested the impact of a weakening Yuan and as new restrictions on property purchases highlighted gold's appeal as an alternative asset. In contrast, demand in the Middle East shrunk by 71% to its lowest levels on record, as a slowdown in oil driven economies and higher local prices dampened demand.

Central bank purchases slowed in 2016
Traditionally viewed as an asset class to help diversify reserves, central bank buying continued in 2016, albeit at a slower pace. Purchases amounted to c.12Moz, approximately a third lower vs. 2015 (c.19Moz). Whilst the buying was led by Russia, China and Kazakhstan, the overall slowdown in purchases can be attributed to sales stemming from pressure on FX reserves. As at the end of December 2016, Russia held c.52Moz as part of its reserves, an increase of 14% on the year.

Slight increase in overall gold supply year on year, big increase in recycled gold
Total mine supply increased by 5% to c.147Moz,with recycled supply jumping 17% to c.42Moz. The bulk of the recycling took place in the first three quarters, as the price rallied from c.US$1,060/oz in January to just over US$1,350/oz by August (before beginning to lose momentum from October onwards), encouraging consumers to cash in their physical gold.

Since gold peaked in 2011, miners have been adjusting to a lower gold price environment by focusing on core operations, cutting back on development / exploration spend and controlling costs. 2016 saw a possible turning point in investment allocation by companies as the gold price showed signs of stabilising above the psychologically important US$1,000/oz level, which allowed gold miners to reconsider their capital allocation plans, with renewed appetite to invest and explore. However, due to the time lag involved between initial exploration and first production, increased exploration spend is unlikely to make an immediate and meaningful impact on supply.

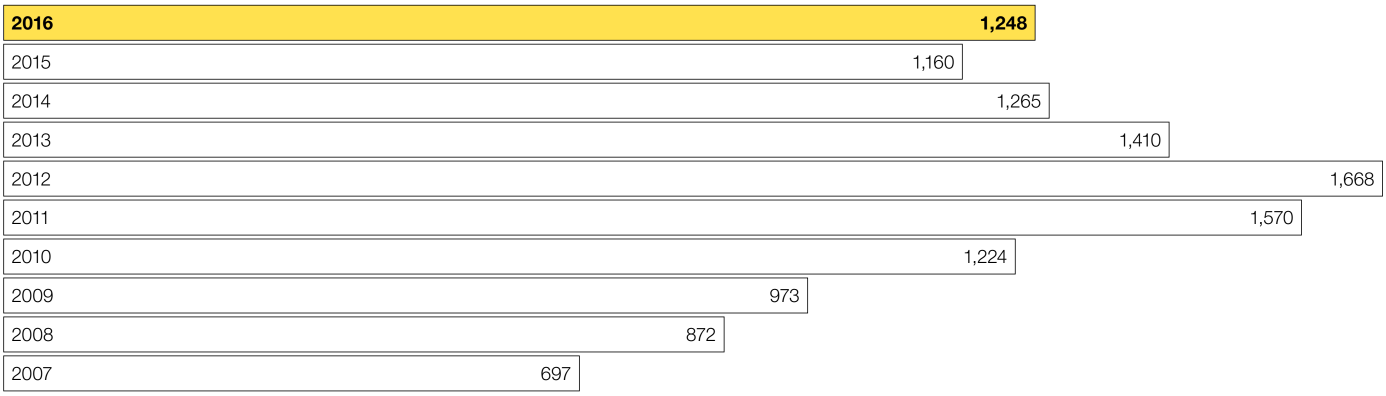
Hedging activity is up on last year, but appears to be mainly related to protecting operating margins while specific new projects are developed, as opposed to sizeable hedging from major producers, seen in the previous cycle.

Oil prices recovered from a 13 year low of US$26/bbl to close the year at over US$50/bbl
The oil price was under great pressure at the start of the year, dipping to well below US$30/bbl. This was due to persistently high inventories, caused by continuous shale production, and rising output from OPEC as it continued to pump oil to compete with shale producers for market share. Petropavlovsk benefited from the lower oil price, which translated into lower fuel costs, an expense which accounts for approximately 15% of our total operating cash expense figure (c.US$40m in 2016, a decrease of 27% / c.US$55m vs. 2015).

The RUB strengthened by 15% against the USD in 2016
While Petropavlovsk's gold sales are denominated in US$, approximately 80% of the Group's costs are RUB based. A weaker RUB is beneficial for the business because operating costs are lower when translated into our reporting currency. The RUB traded within a range of 60.2RUB to 82.3RUB per US$, commencing the year at 72.5RUB and closing at 61.5RUB, appreciating by c.15%. A strengthening oil price alongside the possibility of reduced sanctions helped the RUB to strengthen.

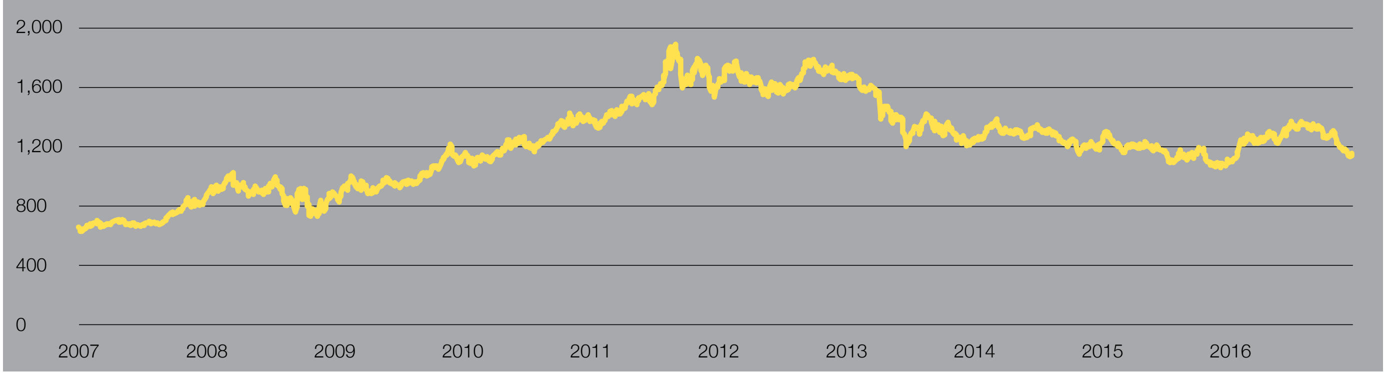
2017 outlook for gold prices
For the first three months of 2017, gold was up 8%. What happens next will partly be determined by levels of macro uncertainty and real rates, hence what ultimately matters is the impact of politics on economic growth and US Federal policy. For instance, if economic growth remains weak and inflation stays low, it is likely that interest rates will remain lower for longer – a positive for gold. On the other hand, should we see acceleration in US and global growth or a large fiscal package with measures that have a high growth impact, this will likely push real rates higher. This would mean a greater opportunity cost to holding gold, while its safe haven appeal would be expected to diminish.

The average annual gold price increased 8% in 2016 to US$1,248/oz (in US$/oz)



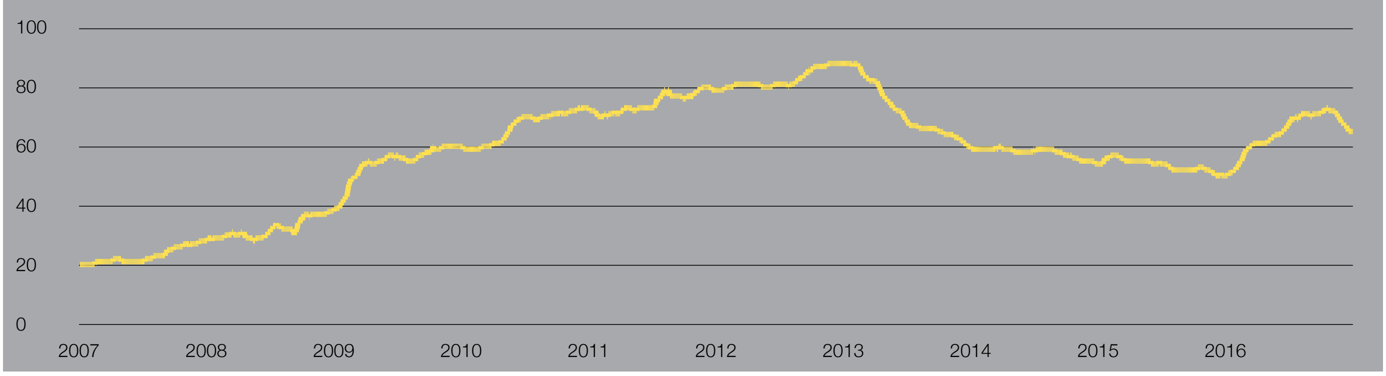
Source: *The London Gold Market Fixing Limited. Data provided for information purposes only.*

Gold appreciated by 8% in 2016 (in US$/oz)



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

Gold ETFs finished 2016 with combined holdings of approximately 65Moz, up 30% on the year (in Moz)



Source: *UBS.*

Our Strategy

Our strategy is to create value for equity investors by growing sustainable cash flows, and via expansion due to successful exploration and development. It is based on the quality of our assets, our focus on operational and development excellence, and our experience, demonstrated by management's track record of driving meaningful organic growth.

Our Strategic Objectives

Sustainable cash generation

Overview

Sustainable growth in cash generation is a key strategic driver for us. We are focusing on expanding margins using our solid and stable producing asset base and applying our operational excellence. We operate one 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. From the first stages of development, our highly qualified team ensures that each of our mines is correctly engineered based on optimal mine planning, and designed to deliver maximum cash flow.

2016 Progress

– A total of 16,166kt combined total material processed

– Implementation of centralised procurement system, significantly improving the Company's ability to negotiate purchase pricing.

2016 KPIs

Total Attributable Gold production

416.3koz (2015: 504.1koz)

Average Realised Gold Sales Price

US$1,222/oz (US$1,178/oz)

2017 Targets

– Targeted gold production of 420-460koz

– Securing cash flow through partial hedging of gold output.

Key Risks

– Gold Price Risk

– Production Related Risk

– Exploration Related Risk

*Please refer to the Risk section on pages 20 to 33.

Growth via Exploration and Development

Overview

Our in house expertise is key to our development strategy. While generating free cash flow from existing operations, we secure high quality sources of long term growth through our own exploration programme, and develop assets using the latest technologies. Our 3,600km^2 licence footprint lies around a major belt of gold mineralisation and remains under explored, which together with our local knowledge and highly qualified geological team allows for significant additions to our mineral reserve and resource base every year. Our solid in house research and technology capabilities enable us to unlock the value of technologically complex ores by using modern and efficient methods of gold recovery.

2016 Progress

– 1.0 Moz uplift in Probable Ore Reserves at the Elginskoye deposit

– 76% increase in Mineral Resources for underground mining at Pioneer and Malomir.

2016 KPIs

Mineral Resources

20.16 Moz (2015: 23.29Moz)

Ore Reserves

7.95 Moz (2015: 8.41Moz)

2017 Targets

– To improve short and midterm cash flow by discovering and bringing non-refractory reserves into production that are suitable for rapid access and extraction via underground and open pit mining

– To better facilitate long term sustainability by adding high quality open pit refractory and non-refractory underground resources to Group totals.

Key Risks

– Project Related Risk

– Legal and Regulatory Risk

– Exploration Related Risk

*Please refer to the Reserves and Resources section on pages 48 to 55.

Focus on Optimisation and Cost Control

Overview

Our approach to operational management is underpinned by the optimal extraction of gold reserves. We plan to achieve highly competitive operational costs and expand margins steadily, leveraging efficiencies resulting from full capacity utilisation, continued operational improvement and comprehensive cost control. We will implement these plans to achieve our production targets and generate healthy gold sales at competitive margins.

2016 Progress

– 12% reduction in total cash costs and 8% reduction in all-in sustaining costs (most substantially at Albyn, by greater than 20%.

2016 KPIs

Total Cash Costs

US$660/oz (2015: US$749/oz)

All-in Sustaining Costs

US$807/oz (2015: US$874/oz)

2017 Targets

– Commence mining from underground, optimising the extraction of high grade reserves at Pioneer and Malomir.

Key Risks

– FX Risk

– Legal and Regulatory Risk

– Production Related Risk

HSE and Social Responsibility

Overview

We aim to have a transformative, positive effect on socioeconomic development in the areas we operate in as we build our successful and responsible mining business. Petropavlovsk is committed to providing its employees with a safe working environment. It is essential for us to safeguard the welfare of our people. We are minimising our environmental footprint, upholding the highest standards as required by Russian law and going beyond operating in line with international best practice, in order to mitigate the negative impact of our operations. We value the support of all our stakeholders – whether they are investors, NGOs, governments or local communities and maintain an open dialogue to constantly improve and grow our business, maximising the positive effect on every group.

2016 Progress

– Maintained excellence in training and raising awareness

– Enhanced monitoring tools to ensure a safe environment for employees

– Proved compliance with local legislation and exceeded requirements by implementing global best practices.

2016 KPIs

GHG Emissions: Combustion of fuel and operation of facilities (Tonnes of CO2e)

182,407.9 (2015: 260,194.9)

Electricity, heat, steam and cooling purchased for own use (Tonnes of CO2e)

222,847.3 (2015: 276,144.1)

Emissions reported above normalised per ounce of gold produced (Tonnes of CO2e /oz)

0.97 (2015: 1.07)

2017 Targets

– Further developing training systems to enrich our HSE culture

– Maximizing efforts to lower the LTIFR (Lost Time Injury Frequency Rate) across sites

– Improving our holistic approach in localizing incidents and accidents.

Key Risks

– Health, Safety and Environmental Risk

Key Performance Indicators (KPIs)

Total Attributable Gold Production (koz)

2016	416
2015	504
2014	625

Definition

Measured in troy ounces, attributable gold production is the total of the gold produced from the Group's four hard rock mines 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 2016
The Group produced 416.3koz of gold in 2016, in line with guidance revised due to adverse weather conditions during the second half of the year. In part due to these conditions, production was lower than the 504.1koz of gold produced in 2015.

Going Forward
Gold production for 2017 is forecast between 420,000-460,000oz, predominantly from open pit operations as underground production is scheduled to commence in H2 2017.

Petropavlovsk remains focused on optimising its current asset base whilst continuing to drive its key growth projects, the POX Hub and the development of underground operations, to first production.

Total Cash Costs per Ounce of Gold for Hard Rock Mines (US$/oz)

2016	660
2015	749
2014	860

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 2016 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 production volume. Mining tax, comprising 6% of the gold price, is also a variable cost dependent on 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 2016
Total cash costs for the Group's mines decreased from US$749/oz in 2015 to US$660/oz in 2016. This primarily reflects the effect of cost optimisation measures undertaken by the Group in response to the lower gold price environment as well as the positive effect of Rouble depreciation.

Going Forward
The Group expects its total average cash costs in 2017 to be c.US$700/oz at current exchange rates.

Go to pages 61 to 63 for further information on cash costs.

All in Sustaining Costs

2016	807
2015	874
2014	972

All in Costs

2016	838
2015	932
2014	1,087

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 63 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 2016
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.

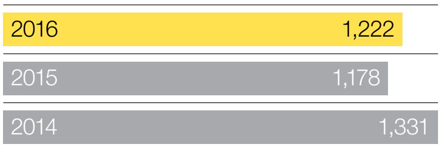
In 2016, AISC decreased to US$807/oz from US$874/oz in 2015. This reflects the reduction in TCC as well as lower sustaining capital expenditure related to the existing mining operations.

AIC decreased from US$932/oz in 2015 to US$838/oz in 2016, reflecting the decrease in all-in sustaining costs explained above, reversal of impairment of refractory ore stockpiles due to gold price recovery and decrease in exploration expenditure.

Going Forward
The Group expects its All in Sustaining Costs of production in 2017 to be c.US$900/oz at current exchange rates.

Go to pages 61 to 63 for further information on cash costs.

Average Realised Gold Sales Price (US$/oz)



Definition
The average realised 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.

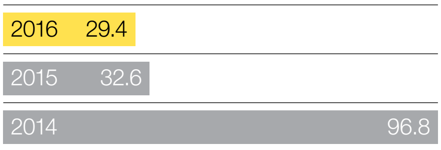
Performance in 2016
In 2016, the average realised gold sales price was US$1,222/oz, including US$(21)/oz effect from forward sales contracts, compared to US$1,178/oz in 2015.

Going Forward
Forward contracts to sell an aggregate of 50,006 ounces of gold at an average price of US$1,303 per ounce were outstanding as at 31 December 2016.

Forward contracts to sell an aggregate of 546,968oz of gold at an average price of US$1,253/oz are outstanding as at 26 April 2017.

Further details on the components of Group revenue, cash flow and hedge arrangements may be found on pages 59.

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.

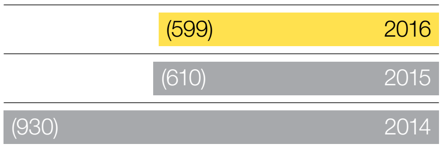
Relevance
Capital expenditure is necessary in order to both maintain and develop the business, however gold capex requirements need to be balanced in line with the Group's strategy and provide an optimal allocation of the Group's funds.

Performance in 2016
The Group invested an aggregate of US$29.4 million in its gold projects compared to US$32.6 million invested in 2015. The key areas of focus this year were on fulfilling existing contractual commitments in relation to the POX Hub project, exploration to support the underground mining at Pioneer, 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.

Going Forward
The Group's capital expenditure requirements are estimated to be around c.US$105 million in 2017. This will be split between continuing the Group's exploration programme (c. US$17 million) and development and maintenance (c. US$85 million). The development works will focus predominantly on constructing the POX Hub, the Malomir flotation plant, and underground operations at Pioneer and Malomir.

A breakdown of 2016 capital expenditure may be found on page 67.

Net Debt (US$m)



Definition
Net debt is set out in note 29 to the consolidated financial statements. Net debt is incurred in order to assist with the financing 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.

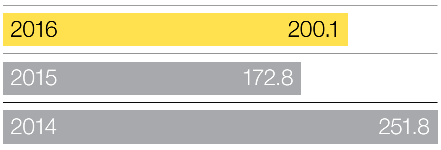
Performance in 2016
Net debt was reduced to US$599 million in 2016 from US$610 million in 2015.

Going Forward
Net debt is expected to decrease to c.US$550 million by the end of 2017, assuming an average gold price of US$1,200/oz for the remainder of 2017.

Net debt is set out in note 29 to the consolidated financial statements.

Key Performance Indicators (KPIs) continued

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.

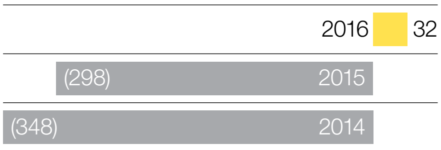
Relevance
Underlying EBITDA is an indicator of the Group's ability to generate operating cash flows, which are the source of funding for the Group's working capital requirements, capital expenditure and debt service obligations.

Performance in 2016
In 2016, the Group generated underlying EBITDA of US$200 million, compared with US$173 million in 2015. That represents a 16% improvement on 2015 primarily due to the contribution from hard rock mines as a result of the higher realised gold price achieved and the improvement in TCC.

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 profit for the period from continuing operations and underlying EBITDA is set out in note 34 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.

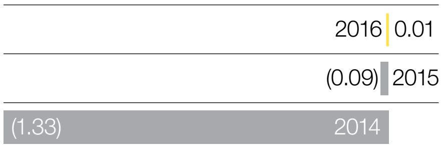
Relevance
Profit/(loss) for the period is often referred to as the 'bottom line' of the income statement and is the income attributable on a per share basis when it is divided by the weighted average number of shares outstanding during the reporting period.

Performance in 2016
Net profit of US$31.7m compared to a net loss of US$297.5 million for 2015, which reflects the improvement in underlying EBITDA, substantially lower losses from IRC (reflecting the fact that no substantial impairments were required in 2016) and deferred tax credit (primarily as a result of foreign exchange effects).

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 profit for the period from continuing operations and underlying EBITDA is set out in note 34 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 2016 was 3,303,768,532 (31 December 2015: 3,300,561,697).

Performance in 2016
Basic profit per share for 2016 was US$0.01 compared with a basic loss of US$0.09 in 2015. Basic profit per share from continuing operations for 2016 was US$0.01 compared to the US$0.07 basic loss per share from continuing operations for 2015. The key factor affecting the basic profit per share was the increase of the profitability of the Group's operations.

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 profit for the period from continuing operations and Underlying EBITDA is set out in note 34 to the consolidated financial statements.

Mineral Resources

2016	20.2
2015	23.3
2014	23.3

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 2016
During 2016, due to the success of the Group's exploration programme, Mineral Resources for potential underground mining increased by c.320koz (76%). New Mineral Resources for potential open pit extraction were established at Quartzitovoye, an increase of 106koz (24%). A total of 3.55Moz of Mineral Resources were disposed of with the undeveloped, potentially capital intensive Visokoye and Yamal projects. This was the main driver for the resource decrease.

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

Ore Reserves

2016	7.8
2015	8.4
2014	9.2

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.

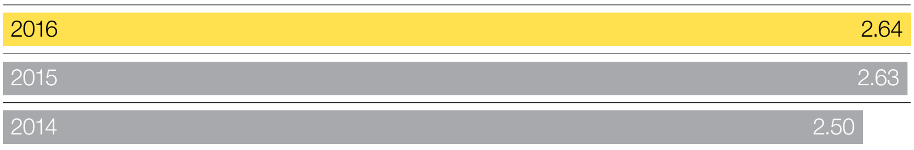
Relevance
JORC Ore Reserves are a measure of the size and quality of the Group's mining assets and its ability to support the life of operating mines at profitable levels. The Group has been placing a strong emphasis on finding new Ore Reserves through exploration in line with its strategy. By implementing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

Progress in 2016
Successful exploration and technical studies increased Ore Reserves at the Elginskoye deposit (Albyn) by 340% to 1.24Moz. Maiden high grade Ore Reserves of 0.37Moz for underground mining were estimated at Pioneer and Malomir, supporting a 6 year underground mine plan. A total of 1.22Moz of Ore Reserves were disposed of with Visokoye which is an undeveloped project in Krasnoyarsk, far from the Amur region where the Group operates. The disposal was the main reason for the Reserve decrease.

Going Forward
Going forward, the Group is striving to continue to establish a high quality non-refractory and refractory reserve base for both open pit and underground mining at their operational mines.

Key Performance Indicators (KPIs) continued

LTIFR



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 2016
For the year ended 31 December 2016, Group operations recorded a LTIFR of 2.64 accidents per million man hours worked.

Regrettably there was one fatal accident during the year, which took place at Pokrovskiy in May. The accident was immediately reported to the HSE Committee and the Board. Following a full investigation by the Russian authorities with the full support of management at the site and of the Group, the Company was found to have acted properly and was not responsible for the accident. Unfortunately the employee had not followed proper procedures in this case which had led to this unfortunate accident.

Following the investigation and a full report and review by both management and the HSE Committee, further training was provided to all employees. It is the Company's practice to ensure that any such incidences are communicated to all relevant employees within the Group in order that lessons can be learned and to prevent such incidences reoccurring.

The Group is striving towards a zero fatal accident target. In order to eliminate the root causes of similar fatalities, the following action was undertaken with the full support of the HSE Committee:

- Safety meetings were held at all levels, across all sites, mines and ancillary entities, to discuss the reasons and circumstances behind the accident
- Training sessions were conducted with all appropriate employees across the Group to refresh their knowledge of the relevant procedures and regulations
- Random testing was conducted amongst this group of employees to ensure that they were working in accordance with the Group's procedures.

Going Forward
The Group has a duty to provide a safe environment for its employees and is constantly looking for ways in which to improve our performance and achieve zero fatalities. The following actions were put in place during 2016:

- An improved accident alert system to better facilitate communication between employees in order to locate accidents and provide necessary assistance
- A successful merging of the Russian three stage reporting system with global best practices to reduce the probability of accidents, identifying and removing potential danger
- Meetings and discussions were held on a regular basis between health and safety officers to share information and raise awareness
- Rigorous control and monitoring of compliance with the Group's health and safety regulations to ensure a safe environment is promoted
- The Fatal Accidents List, as part of the safety induction and refresher course, is a tragic reminder of the importance to obey health and safety rules at all times with no exclusions.

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. We do not have responsibility for any emission sources that are not included in our consolidated statement.

We have adopted methodology for the planning and reporting of Green House Gases (GHG) according to the laws of the Russian Federation and 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 emissions associated with grid electricity are reported by the generator. However, for transparency purposes, the GHG emissions associated with our consumption of electricity have been reported below. This is measured in tonnes of carbon dioxide and calculated using the 2016 IEA electricity conversion factor for the Russian Federation of 0.37959 kilograms of CO2 equivalent per kilowatt hour.

All emissions quoted below are Gross as no deductions, for export of renewable energy or purchase of 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 2016, Petropavlovsk produced 416,300ozs and has used this figure to calculate our intensity metric.

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 against an approved plan are sent to the Russian Environmental Agency Rosprirodnazor.

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.

Global GHG emissions data for period 1 January 2016 to 31 December 2016

	Reporting year	Comparison year
Emissions from:	01.01.2016 – 31 12.2016	01.01.2015 – 31 12.2015
Combustion of fuel and operation of facilities (Tonnes of CO2e)	182,407.9	260,194.9
Electricity, heat, steam and cooling purchased for own use. (Tonnes of CO2e)	222,847.3	276,144.1
Emissions reported above normalised per ounce of gold produced. (Tonnes of CO2e / oz)	0.97	1.07

Risks to Our Performance

Introduction
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 (i) financial risks which are monitored by the Audit Committee and (ii) health, safety and environmental ('HSE') risks which are monitored by the HSE Committee. Financial risks and HSE risks are monitored 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 below.

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 Executive Committee evaluates 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 are then presented 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.

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 22 to 33. The Group seeks to mitigate these risks wherever possible, although some, such as political risks, are largely beyond the Group's control. 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 detailed in the table on the following pages and are supported by the robust risk management and internal control systems and procedures outlined on pages 85 to 86.

Risk management framework

Petropavlovsk PLC Board

Audit Committee | **HSE 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	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*

Major changes from risks identified in the 2015 Annual Report

IRC Related Risks:

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$234million principal was outstanding as at 31 December 2016. On 31 March 2017, IRC announced that ICBC has waived the obligation of K&S to repay all loan principal instalments due in 2017 totalling US$42.5million. This amount will be spread equally between the five subsequent repayment instalments due under the project finance facility.

In addition, with its commissioning, K&S is successfully operating at 75% production capacity and the iron ore price has increased considerably during the year.

The above factors represent a significant reduction in the risk that there will be a claim on the Company's guarantee in the immediate future and hence represent a significant reduction in the Company's risk profile.

All IRC's risks, including the potential impact of a decrease in the iron ore price, are included as one risk in the table below for ease of reference.

Group's Mineral Resource and Ore Reserves:

The Group's activities are reliant on the quantity and quality of its Mineral Resources and Ore Reserves. However these 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 Reserves estimates. The Group has a detailed process of assuring the accuracy of its Mineral Resources and Ore Reserves. In addition, the Mineral Resources and Ore Reserves estimates which are included in this Report for the Group's existing mining licences have been prepared in accordance with the guidelines of the JORC Code (2012) and have been reviewed and signed off by Wardell Armstrong International ("WAI") in April 2017. WAI is an independent consultancy that provides the mineral industry with specialised geological, mining, and processing expertise. The Group also adopts a prudent gold price assumption when estimating its Ore Reserves, with an assumed long term gold price assumption of US$1,200oz used for the current estimates.

Given the assurance programme undertaken by the Group when estimating its Mineral Resources and Ore Reserves the ongoing inclusion of this risk as a 'Principal Risk' is no longer considered appropriate for inclusion in this report although it will continue to be monitored by the Board to ensure that the assurance programme remains appropriate. Consequently this risk is no longer included in the table of Principal Risks.

Political risk due to operating in Russia

The Group's operations are based in Russia. Details regarding the financial and economic sanctions imposed on Russia in 2014 by the United States and the EU on certain businesses and individuals and the subsequent response by Russia are well known.

There have recently been further developments regarding the political situation between Russia and the West which have been widely reported in the media. The Board and the Executive monitor the relevant issues on a continual basis. However it is recognised that this and other geopolitical risks cannot be influenced by the Company.

The Board has decided that given that these issues are widely known and the Company is unable to influence this risk, it should be removed from the table of Principal Risks provided in this report. The Board will continue to monitor this risk.

As detailed above the following table includes the most significant risks that may have an adverse impact on the Group's ability to meet its strategic objectives. More focus is therefore provided in the table on the risks related to the construction of the POX Hub and the underground mining project given that these are the most critical to the future growth and the financial viability of the Group.

Table of principal risks

Operational risks

PRODUCTION RELATED RISK – Failure to achieve the Group's production plan		
Risk	**Description and potential impact**	**Additional information**
Risk to production from: – **Severe weather conditions.** – **The availability of suitable machinery, equipment and consumables.** – **Logistics for the delivery of equipment and services.**	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. 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. 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.	Operational performance on pages 36 to 43.

EXPLORATION RELATED RISK		
Risk	**Description and potential impact**	**Additional information**
The Group's activities are reliant on the quantity and quality of the Mineral Resources and Ore Reserves available to it.	Exploration activities are high risk, 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 current production with new Reserves or mining operations.	Operational performance on pages 36 to 43.

The symbols indicate how the Company considers that these risks have changed since 2015.

↑ Increased risk	N New risk	→ No change	↓ Decreased risk

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
Preventative maintenance procedures are undertaken on a regular and periodic basis to ensure that machines will function properly under extreme cold weather conditions; heating plants at operational bases are regularly maintained and operational equipment is fitted with cold weather options which could assist in ensuring that equipment does not fail as a result of adverse weather conditions. Pumping systems are in place and tested periodically to ensure that they are functioning. Management monitor natural conditions in order to pre-empt any disaster and in order that appropriate mitigating action can be taken expediently. The Group aims to maintain several months of essential supplies at each site. Equipment is ordered with adequate lead time in order to prevent delays in their delivery. The Group has a number of contingency plans in place to address any disruption to services.	Flooding and unusually cold weather prevented the Group delivering on the original 2016 mine schedule resulting in a lower average processed grade for 2016 and lower production. However with strong capital discipline and dedicated cost control the Group achieved TCC of US$660oz, improving the Group margin per ounce. The Executive team and operational management responded well to the bad weather at Pioneer's Andreevskaya deposit. A full impact assessment including detailed mapping, recording and monitoring of rock fractures was carried out. Whilst any available mining fleet was temporarily utilised at Pioneer's other operating pits. However the Company's overriding commitment to the safety of its employees meant that delays in production at Pioneer were inevitable.	**High**	→

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
The Group uses 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. The Group's exploration budget is fixed for each asset at the start of each financial year depending upon previous results.	Defined within Petropavlovsk's substantial 20.16Moz JORC Resource (7.95Moz JORC Reserve) is a 9.26Moz refractory gold Resource (4.07Moz refractory Ore Reserve), with under explored resource upside within the highly prospective 3,600km^2 licence areas. The completion of the POX Hub will unlock the 9.26Moz refractory Resource which supports Petropavlovsk's long term growth objectives in doubling the average life of mine and sustaining its production profile. During 2016 the Group continued to explore the potential for further mine life extension and production expansion. – At Malomir, exploration work has identified several highly prospective satellite refractory targets for further exploration work, including Ozhidaemoe. – At Pioneer, refractory targets have been identified south of the main Pioneer orebody zone. The Alexandra zone and Sosnovaya licence are also expected to provide further refractory resource upside.	**High**	↓

Table of principal risks

Operational risks continued

PROJECT RELATED RISKS – Failure to deliver various construction and development projects
The Group's long term strategy relies on the successful commissioning of the POX Hub and the delivery of the underground mining project.

Risk	Description and potential impact	Additional information
1. Pressure Oxidation (POX) Hub.	If the Group is unable to commission POX within the projected budget and timeframes this may have an adverse impact on the Group's growth plans and its future profitability.	Development Projects on pages 44 to 47.
2. The underground mining project.	If the Group is unable to deliver underground mining production within the agreed budget and timeframes this may have an adverse impact on the Group's growth plans and its future profitability.	Development Projects on pages 44 to 47.

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
The Group has entered into a management contract with Outotec a world leader in the design and construction of pressure oxidation and flotation plants. Outotec will oversee the manufacture, installation and commissioning of the equipment and has guaranteed certain operating parameters. The Group's pilot plant in Blagoveshchensk during 2013-2015 confirmed the feasibility of POX processing for Malomir and Pioneer concentrates. POX has a special procurement process with a separate budget and expenditure schedule, monitored and signed off by the CEO, COO and CFO based on the approved budget.	– During 2016 the Company renewed key contracts with Outotec. – As part of the recommencing of the POX Hub development Outotec (alongside the Company) ran checks on the major equipment in situ and commenced work on the automation and control systems. – Tests at the pilot plant continued. Under the refinancing agreements with VTB and Sberbank (see page 109), the Group is required to complete the construction of POX out of its free cash flow.	**High**	
The Group employed a Russian engineering firm to undertake a pre-feasibility study and mine design on underground mining. The study concluded that underground mining should be technically feasible and economically viable.	– An experienced firm of contractors commenced the underground mining works at Pioneer working closely with the Group's in house underground operations team. **The Executive Committee and the Board closely monitor both the POX and underground mining projects.**	**High**	

Table of principal risks

Financial risks

FUNDING AND LIQUIDITY RELATED RISKS

Risk	Description and potential impact	Additional information
Lack of funding and liquidity to allow the Group to **i. Support its existing operations;** **ii. Invest in and develop its exploration and underground mining projects;** **iii. Complete the construction of the POX Hub;** **iv. Extend the life and capacity of its existing mining operations;** **v. Refinance/repay the Group's debt as it falls due; and** **vi. Complete the construction of the POX Hub out of its free cash flow.** **If the operational performance of the business declines significantly the Company may breach one or more of the financial and production covenants as set out in various financing arrangements.**	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. 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.	Chief Financial Officer's Statement on pages 58 to 69.

GOLD PRICE RISK

Risk	Description and potential impact	Additional information
The Group's operational results may be affected by changes in the gold price.	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 and consequently its ability to fund the construction of the POX Hub. The market price of gold is volatile and is affected by numerous factors which are beyond the Company's control.	Chief Financial Officer's Statement on pages 58 to 69.

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
Detailed annual budgets are approved by the Board and monthly forecasts provided. A successful cost reduction programme was undertaken to offset the effect of a reduction in the gold price. The Group continues to progress its internal KPI to reduce total cash costs by 50% during the period 2013-2018.	On 20 December 2016 the Group completed the refinancing of US$430 million of its debt with its lending banks Sberbank and VTB. The approved terms include a revised maturity profile from May 2018 to September 2022 (inclusive of an option to extend the 2019 maturity payment to 2022 subject to certain conditions being satisfied) and an effective average interest rate of c.8%. The Group is currently completing the final documentation for the Sberbank US$100m commodity linked loan facility. Once this has been completed the Group's entire bank debt of c.US$530m will have been refinanced. The financial and operational covenants were renegotiated during 2016 as part of the refinancing of the Group's total debt.	**High**	↓

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
The Executive Committee constantly monitors the gold price and influencing factors on a daily basis and consults with the Board as appropriate. The Group has a hedging policy and hedges a portion of production as the Executive Committee and Board deem appropriate.	In order to increase certainty in respect of a significant proportion of its cash flows, the Group entered into a number of gold forward contracts during 2016. Forward contracts to sell an aggregate of 134,545oz of gold matured during the year and resulted in US$(8.5) million net settlement paid by the Group. Forward contracts to sell an aggregate of 50,006oz of gold at an average price of US$1,303 per oz were outstanding as at 31 December 2016. During 2017 the Company has continued to hedge a portion of its gold production in order to protect itself from volatility in the price.	**High**	↓

Table of principal risks

Financial risks

FX RISK		
Risk	**Description and potential impact**	**Additional information**
Currency fluctuations may affect the Group.	The Company reports its results in US Dollars, which is the currency in which gold is principally traded and therefore in which most of the Group's revenue is generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. 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. In addition, a portion of the Group corporate overhead is denominated in Sterling. Therefore, adverse currency movements may materially affect the Group's financial condition and results of operations. In addition, if inflation in Russia were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, the Group's business, results of operations and financial condition may be adversely affected.	Chief Financial Officer's Statement on pages 58 to 69.

IRC Related RISKS – The Company has a 31.10% interest in IRC, a Hong Kong Listed iron ore producer		
Risk	**Description and potential impact**	**Additional information**
Risk that funding may be demanded from Petropavlovsk under a guarantee in favour of ICBC arising from: **Inability of K&S to service the interest and meet the repayments due on the ICBC loan due to insufficient funds arising from:** – **Late commissioning of K&S** – **Decrease in iron ore price** **A further delay in the commissioning of K&S and/or a decrease in the iron ore price could result in a decrease in the value of the Company's shareholding in IRC.**	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$234million is outstanding (2015: c.US$276million). This loan is supported by Sinosure, the Chinese export credit 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 Under the terms of the Company's banking facilities with Sberbank and VTB, the Company is unable to provide any funds to IRC without the prior consent of these lenders.	IRC on page 56. Audit Committee Report on pages 80-86.

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
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 risk exposure.	The Group does not undertake any foreign currency transaction hedging although this is kept under review. The Russian Rouble depreciated against the US Dollar during 2016, with an average exchange rate for 2016 of 67.18 Rouble per US Dollar compared with 61.30 Roubles per US dollar during 2015.	**High**	→

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
The Board and the Executive Committee maintain close communication with IRC's Executive. IRC and the Company continue to consider various options available to them, both separately and jointly, regarding the restructuring of IRC's debt and the potential removal of the guarantee.	On 31 March 2017, IRC announced that ICBC has waived the obligation of K&S to repay all loan principal instalments due in 2017 totalling US$42.5million. This amount will be spread equally between the five subsequent repayment instalments due under the project finance facility. In addition K&S is successfully operating at 75% production capacity and the iron ore price has increased considerably during 2017, rising to US$100 per tonne in March 2017. Based on IRC's cost optimisation analysis the estimated unit cash cost of K&S is c.US$34 per tonne for product delivered to the Chinese border. The above factors represent a significant reduction in the risk that there will be a claim on the Company's guarantee in the immediate future and hence represents a significant reduction in the Company's risk profile. The Company's interest in IRC was valued at US$36.140 million as at 31 December 2016 (2015: US$39.163 million).	**High**	↓

Table of principal risks

Health, safety and environmental risk

Risk that our employees or those visiting our operations may be injured

Risk	Description and potential impact	Additional information
Mining: – **is subject to a number of hazards and risks in the workplace** – **requires the use of hazardous substances including cyanide and other reagents.**	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. Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community.	Environmental, Safety and Social Report on pages 34 to 35.

Legal and regulatory risks

Risks that legal or regulatory issues may impact the ability of the Group to operate

Risk	Description and potential impact	Additional information
The Group requires various licences and permits in order to operate.	The Group's principal activity is the mining of precious and non-precious metals which require it to hold licences which permit it to explore and mine in particular areas in Russia. These licences are regulated by Russian governmental agencies and if a material licence was challenged or terminated, this would have a material adverse impact on the Group. In addition, various government regulations require the Group to obtain permits to implement new projects or to renew existing permits. Failure to comply with the requirements and terms of these licences may result in the subsequent termination of licences 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.	

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
Board level oversight of health and safety issues occurs through the work of the Health, Safety and Environmental Committee ('HSE') which is chaired by Mr Alexander Green, Independent Non-Executive Director. Health and Safety management systems are in place across the Group to ensure that the operations are managed in accordance with the relevant health and safety regulations and requirements. The Group 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. Cyanide and other dangerous substances are kept in secure storages with limited access only to qualified personnel, with access closely monitored by security staff. H&S targets are included in the annual bonus scheme for Executive Directors and the Executive Committee.	The Group operates a prompt incident reporting system to the Executive Committee and the Board. There were 34 lost time accidents during 2016 with a Lost Time Injury Frequency Rate ('LTIFR') for 2016 of 2.64 accidents per 1 million manhours worked compared with 36 accidents in 2015 and a LTIFR of 2.63. There was one fatality during 2016 (2015: 1). This fatality was reported immediately to the Chairman of the HSE Committee. A full investigation of this incident was conducted by the Russian authorities which concluded that the Company was not at fault for the accident. Records confirmed that the individual concerned had received all relevant training from the Company. The HSE Committee discussed this matter in detail to identify whether any actions should be taken or further training provided to mitigate against any reoccurrence of a similar accident. Action was taken by the Group's management and H&S officers to reinforce correct behaviour to employees. At the request of the HSE Committee the Group commenced a new 'health and safety' campaign specifically aimed at preventing accidents involving vehicles. There were no accidents involving cyanide or other dangerous substances during 2016.	**Medium/High**	→

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
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.		**Medium/High**	→

Table of principal risks

Legal and regulatory risks continued

Risks that legal or regulatory issues may impact the ability of the Group to operate		
Risk	**Description and potential impact**	**Additional information**
The Group is subject to risks associated with operating in Russia.	Actions by governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets could have an adverse impact on the Group's business or its future performance. Most of the Group's assets and operations are based in Russia. Russian foreign investment legislation imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including in respect of gold reserves in excess of a specified amount or any occurrences of platinum group metals. 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.	

Mitigation/comments	2016 Progress	Potential impact	Change since 2015
To mitigate the Russian economic and banking risk the Group strives to use the banking services of several financial institutions and not keep disproportionately large sums on deposit with a single bank. The Group seeks to mitigate the political and legal risk by constant monitoring of the proposed and newly adopted legislation to adapt to the changing regulatory environment in the countries in which it operates and specifically in Russia. It also relies on the advice of external counsel in relation to the interpretation and implementation within the Group of new legislation. The Group closely monitors its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government. 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.	This risk cannot be influenced by the management of the Company. However, the Group continues to monitor changes in the political environment and reviews changes to the relevant legislation, policies and practices.	**High**	

Environmental, Safety and Social Report

"Our job as senior leaders within the Company is not complete until we have returned unharmed each and every one of our employees to their families and friends after each shift rotation. As such, we are committed to continual improvement in the Group's health and safety record." *Alexander Green, HSE Committee Chair*

Petropavlovsk understands the importance of maintaining solid relationships with its many stakeholders and is proud of the progress made since inception in 1994. The Group believes its approach has contributed to its success to date.

In 2016, independent technical auditors Wardell Armstrong confirmed 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 it is understood that there is almost universal support for the operations within the local community.

Working at Petropavlovsk
Petropavlovsk recognises the socioeconomic influence it has as a major employer and taxpayer in the Amur region. The Group understands that its employees are a key asset and invests in them accordingly, leveraging their expertise and providing continuous development. The Pokrovskiy Mining College, which aims to offer employment opportunities to graduates, was established in 2008 to provide future employees with specialised training, tailored to the needs of the Group.

The Group is proud to provide equal opportunities and pay in all aspects of employment, regardless of gender or background, as required by both Russian and UK legislation. Women have the opportunity to reach the highest levels of senior management – that the Group has a disproportionately high ratio of male to female employees is a reflection of historic trends in the mining sector.

As at 31 December 2016, 1,857 employees were female, representing c.23% of the Group's total workforce.

The Board considers its senior management to be the Executive Committee, which is responsible for managing the company day to day. This comprises three Executive Directors and seven members of senior management. As at 31 December 2016, two of its members were female, representing c.29% 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. Alya Samokhvalova was a Board member until 30 April 2015, when she resigned following the restructuring of the Board. She remains with Petropavlovsk and in 2016 was promoted to the position of Deputy CEO, Strategic Development.

It is Petropavlovsk's duty as employer to ensure that employees are issued with contracts detailing their working hours, paid annual leave and other guarantees, in line with Russian or UK legislation (as applicable). In Russia, the Group operates in accordance with the Constitution of the Russian Federation, which details the rights and freedoms of citizens.

At the mines, shift patterns help employees to maintain their family commitments whilst ensuring operations can run throughout the year. Employees work to shift patterns of a fortnight, month, or 45 days. Once each shift is complete, employees have the same amount of time off work. Commuting is impractical due to the remote location of the mines. Employees stay in purpose built accommodation on site, with recreational facilities and modern conveniences.

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

The Group has a zero tolerance approach to corruption and bribery and 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 notified to all employees, both in the UK and in Russia, sets out the procedures that employees are expected to follow.

Given the importance of anti bribery matters they are 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.

Engaging with Communities
Petropavlovsk communicates its development plans to local communities and ensures they are actively involved in the process. If issues are raised, they are addressed through public consultation. No public consultations were held in 2016. The Group continues to monitor circumstances in line with its commitment to maintaining good relationships with local communities and authorities.

The Petropavlovsk Foundation was established in 2010 to support the Group in promoting development in the Russian Far East, with particular focus on the Amur region. The Foundation aims to provide local communities with social, economic and cultural opportunities, improving quality of life and encouraging investment in the region. It works closely with regional stakeholders, from federal groups to small businesses.

The Foundation supports a range of causes that fall beneath its five areas of strategic investment:

- Future Generations (Child Development)
- Research and Development
- Culture
- Quality of Life
- Sport.

In 2016, the Foundation received funding from the Civic Chamber of the Russian Federation for a sociological research project into wellbeing in the Amur region. The results contributed to important work on demographic policy in the Russian Far East. Alongside this it continued to make significant progress with its Albazino archaeological project, which became a finalist for the national Crystal Globe award. In 2015, the project received funding from both the Ministry of Culture and the Russian Geographical Society, along with a certificate presented by Russian President Vladimir Putin, who chairs the Society's Board of Trustees.

Managing the Environment

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

In 2016, all Group Mines adopted the Declarations on the Technical Regulation TR TS 030/2012 concerning lubricants, oils and speciality fluids, based on the Customs Union agreement (Russia, Kazakhstan, Belarus), and following ratification and introduction into Russian legislation. These declarations are adopted at all our sites and are aimed at minimizing the potential negative effects of such materials. Also in 2016, the Group prepared to renew certification for ISO:14000 amid updated interstate ratification, finalisation and approval processes.

The Group requires licences and permits from Russian authorities for some operational activities (mining and exploration, construction, handling hazardous waste and using local water supplies). These may detail limits and conditions to help protect the environment. The Group must also draw up environmental impact assessments for mining project permits to be considered, in line with Russian legislation.

The environment is monitored throughout the line of each mine 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 detailing 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, reducing demand from local sources.

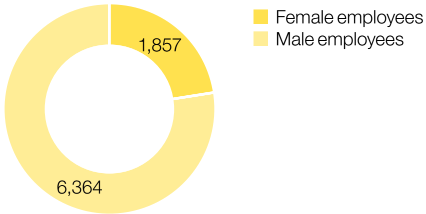
Waste management programmes are agreed with regulatory authorities in compliance with Russian legislation. The programmes detail standards and limits on what can be produced or disposed of. Data on waste is collected, logged and sent to regulatory authorities for review.

The Group is governed by laws designed to limit industrial impact on ecosystems. Land may only be cleared within the limits of licences and permits, for instance, and in designated areas it is forbidden to fish, hunt, poach or drive vehicles.

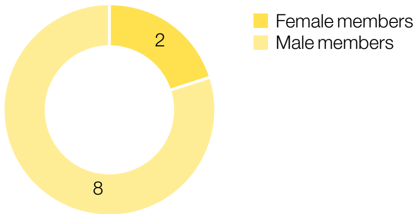
Petropavlovsk uses purification systems, anti dust equipment and other protective facilities to prevent harmful substances entering the atmosphere. Gas purification equipment is at all emission points and is monitored on a regular basis. Air quality monitoring includes carbon monoxide and dust emissions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

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

Breakdown of total number of employees as at 31 December 2016



Breakdown of members of the executive committee as at 31 December 2016



Operational Performance

Pioneer

Acquired as greenfield licence in 2001

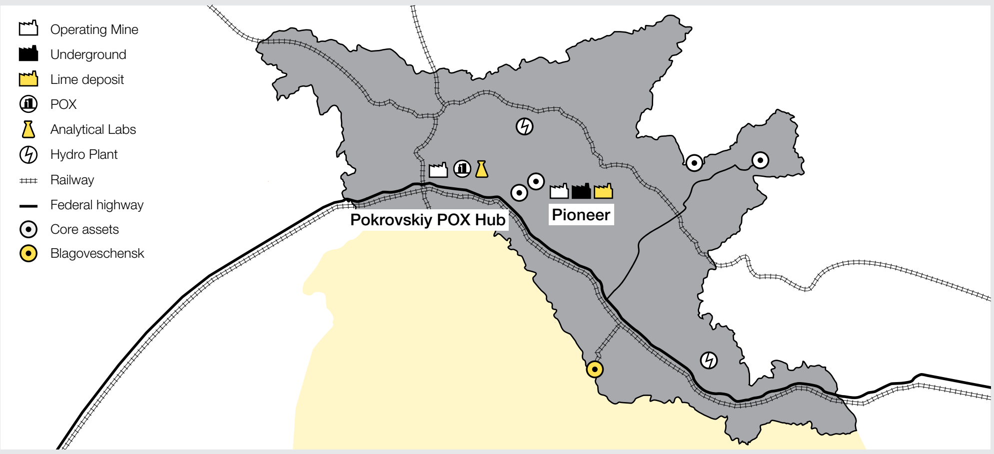
Developed into one of Russia's largest gold operations

Produced 2.3Moz ounces of gold since 2008

Expected +15year life of mine

Introduction

Pioneer is one of the Group's most prospective assets, providing near term growth potential from underground non-refractory exploration and development, and regional exploration (Pioneer flanks). Long term growth potential includes bringing forward the flotation plant (6.0Mtpa) development, currently scheduled for 2021, and the untapped greenfield exploration potential within its 1,375km^2 total licence area.



2016 gold production
141.9koz – 34% of total Group gold production for the year.

Key facts

- Located in the south of the Amur region, 450km from Blagoveshchensk, the China border trade city and regional business hub
  - Situated between the BAM and Trans-Siberian Railway, with the nearest station approximately 40km away
  - 63km from the largest regional hydropower station (5GW)
- Hard rock non-refractory and refractory deposit
- Reserves and Resources 5.52Moz
  - 44% non-refractory Mineral Resource
  - 27% of total Group Mineral Resource
- Open pit mining
  - Underground mining to commence Q2 2017
- 6.7Mtpa RIP plant and seasonal heap leach facility on site
- Annual LTIFR of 3.4 per million man hours worked.

2016 Progress

- Maintained total cash costs below US$650/oz
- Commenced development of our maiden underground mine at NE Bakhmut in Q3
- First ore from underground scheduled to be mined in Q2 2017
- Significantly increased existing underground Mineral Resource and defined first Ore Reserve at NE Bakhmut
- Enhanced understanding of high grade underground zones and continuity of mineralisation at depth
- Discovery of new Katrin orebody within the Sosnovaya licence.

2017 Targets

- Commence mining from underground, ramping up to 200ktpa throughout the year
- Progress underground development into the deeper NE Bakhmut 3 higher grade main area
- Maintain open pit mining and operating excellence
- Reduce LTIFR.

Geology

Gold mineralisation at Pioneer was formed near a contact between a multiphase granitoid massif and Jurassic country 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 thrust line, within the belt of mineralisation associated with the collision of the Eurasian and Amur plates.

The Pioneer deposit consists of multiple identified orebodies, most of which are steep dipping and remain open in a down dip direction. Pioneer orebodies comprise of high grade shoots and lower grade halo mineralisation. The high grade shoots are normally 1 to 8 metres in thickness with a strike length up to 400m. The more moderate grade halos are up to 200m thick with a strike length of up to 2km.

Mining and Processing

Pioneer is a multiple open pit, bulk tonnage, owner operator mine. The mining fleet consists of approximately 100 pieces of major mining equipment. Mining productivity and equipment utilisation is optimised by operating two daily shifts, throughout the year.

Underground development commenced at NE Bakhmut in Q3 2016 by a reputable Russian mining contractor, with ore mining to commence in Q2 2017.

The Pioneer orebodies include both non-refractory and refractory ore. Non-refractory ore is processed at the 6.7Mtpa RIP plant, which operates throughout the year. Refractory ore does not respond to standard RIP processing methods – specifically it is not suitable for direct cyanidation processing. The Group is currently developing a processing plant, the POX Hub, to treat its significant refractory ore reserve base. The POX Hub is due to be completed and commissioned from Q4 2018, with Pioneer concentrate scheduled to be processed from 2023.

Low grade non-refractory ore (<0.5g/t) is processed via an onsite seasonal heap leach operation.

Operational Performance

Pioneer open pits produced 141.9koz, representing 34% of the Group consolidated annual gold production. This was a 39% decrease from 2015 (2015: 231.4koz). Ore was mined from Alexandra, Bakhmut, Vostochnaya and taken from stockpiles. Following extensive waste stripping throughout the year, high grade ore was expected from the Andreevskaya East pit in Q4 2016. However, unusual weather conditions resulted in disruptions and ultimately deferred access to the high grade zone (into 2017) resulting in an average grade mined of 0.95g/t, 35% lower than 2015.

Underground development has commenced, with stope mining scheduled to start in Q2 2017. Including the ventilation decline, a total of 675m of decline development was completed in 2016.

The RIP plant processed 6.7Mtpa of ore, a 2% increase on 2015. Metallurgical recovery averaged 85.5%, a 1% increase on 2015.

The heap leach operation produced 5.3koz, a 21% decrease from 2015 (2015: 6.7koz).

The plant performed as expected, delivering on all technological performance indicators.

Total cash costs were US$631/oz, a 1% increase on 2015. All in sustaining costs were US$789/oz, a 5% increase from 2015.

Pioneer mining operations

	Units	Year ended 31 December 2016	Year ended 31 December 2015
Total material moved	m3 '000	17,360	23,980
Ore mined	t '000	3,266	6,016
Average grade	g/t	0.95	1.28
Gold content	oz. '000	99.4	248.4

Processing operations (Resin-in-pulp plant)

	Units	Year ended 31 December 2016	Year ended 31 December 2015
Total milled	t '000	6,700	6,582
Average grade	g/t	0.74	1.25
Gold content	oz. '000	159.8	264.5
Recovery rate	%	85.5%	85.0
Gold recovered	oz. '000	136.6	224.7
Heap leach operations			
Ore stacked	t '000	701	800
Average grade	g/t	0.53	0.56
Gold content	oz. '000	12.0	14.5
Recovery rate	%	44.1%	46.2
Gold recovered	oz. '000	5.3	6.7
Total gold recovered	oz. '000	141.9	231.4

Exploration Overview

The brownfield exploration programme focused primarily on near mine resource expansion and NE Bakhmut underground resource to reserve conversion. Limited deep level surface drilling at Bakhmut, Promezhutochnaya and Andreevskaya focused on identifying potential underground high grade mineralisation below the reserve pits.'

2017 Outlook

The 2017 Pioneer production profile is expected to be in line with 2016, underpinned by open pit operations at Alexandra, Yuzhnaya, Promezhutochnaya and NE Bakhmut 4 and 5, in addition to deferred high grade material from Andreevskaya East, as a result of the mining disruptions late in 2016.

Operations are due to begin in 2017 at the maiden underground mine at NE Bakhmut, which is set to provide production upside. High grade underground mining is scheduled to commence in H2 2017. In addition, the underground exploration drilling programme is to begin at the deeper extensions below the defined resource, where deep surface drilling has intersected high grade mineralisation.

Albyn

Acquired as greenfield licence in 2005

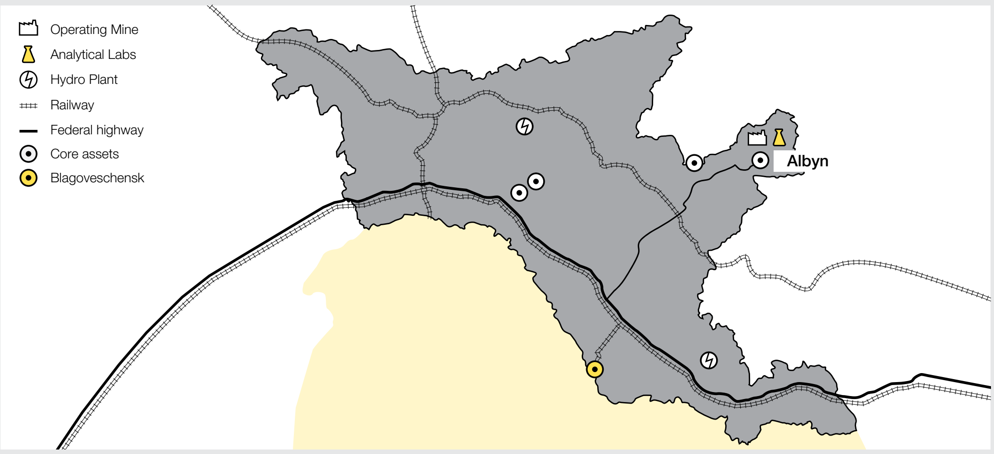
Developed into Petropavlovsk's largest producing mine

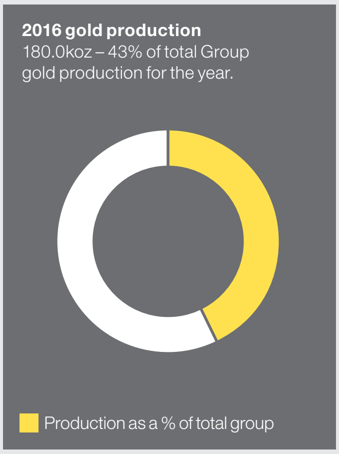
Produced 749koz ounces gold since 2011

Expected +15 year life of mine

Introduction

Albyn is currently the Company's largest producing mine with a 100% non-refractory defined resource base. The highly prospective 1,100km^2 licence area is largely under explored, presenting potential near term upside from high grade, non-refractory resources to be discovered. The main orebodies at Albyn are open in a down dip direction beyond of the feasible depth of open pit mining, offering longer term growth potential to establish resources and reserves for underground mining.





Key facts

- Located in the north east of the Amur region, 720km from Blagoveshchensk, the China border trade city and regional business hub. 2km away from town of Zlatoustovsk – a center of local alluvial gold mining.
  - BAM railway 280km away
- Hard rock non-refractory deposit
- Reserves and Resources 4.77Moz
  - 100% non-refractory
  - 24% of total Group Mineral Resource
- Open pit mining
- 4.7Mtpa RIP plant on site
- Annual LTIFR of 2.6 per million man hours worked.

2016 Progress

- Reduced total cash costs and all-in sustaining costs by greater than 20%
- Significantly increased Ore Reserves at Elginskoye, demonstrating sustainable production and extended life of mine potential
- Encouraging initial results showing 3km strike extension at Yasnoye
- Completed infill drill programme on the southern end of Unglichikan deposit in preparation for mining to commence in 2017.

2017 Targets

- Commence mining at Unglichikan to provide additional high grade ore for Albyn plant
- Drill deeper targets below Albyn pit to model and assess underground potential
- Exploration programme at Unglichikan and Afanasevskoye to further expand Albyn's non-refractory reserve and resource base and subsequent life of mine
- Sustain open pit mining and operating excellence.

Geology
The mine is located on the Mongolo-Okhotskiy thrust zone, within the belt of mineralisation associated with the collision of the Eurasian and Amur plates. 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.

The Albyn licence area consists of multiple orebodies within four key deposits: Albyn, Elginskoye, Unglichikan and Afanasevskoye. All these orebodies are open in down dip direction. Elginskoye, Unglichikan and Afanasevskoye are also open along strike.

In addition to these four proven deposits there are number of known exploration targets of which Ulgen, Yasnoye and Leninskoe are the most significant. The majority of the 1,100km^2 licence area remains under explored and highly prospective.

Mining and Processing
Albyn is a large (2.2km in length), open pit, bulk tonnage operation. The mining fleet consists of 101 pieces of major mining equipment. Mining productivity and equipment utilisation is optimised by operating two daily shifts throughout the year.

The Albyn licence includes multiple defined orebodies. All are non-refractory and can be treated at the 4.7Mtpa RIP plant, which operates throughout the year.

Operational Performance
Albyn produced 180.0koz, representing 43% of the Group's consolidated annual gold production. This was a 14% increase on 2015 (2015: 157.6koz). Ore was mined throughout the year from Eastern and Northern sections of the pit and processed from stockpiles. The average annual mined grade was 1.25 g/t, a 9% increase on 2015, due to reduction in dilution and mining from the thicker main zone.

The RIP plant processed 4.68Mtpa of ore, a 2% increase on 2015. Metallurgical recovery averaged 93.5%, a marginal improvement on 2015.

Albyn mining operations

	Units	Year ended 31 December 2016	Year ended 31 December 2015
Total material moved	m3 '000	31,763	36,722
Ore mined	t '000	4,970	4,906
Average grade	g/t	1.25	1.15
Gold content	oz. '000	199.5	181.5

Processing operations (Resin-in-pulp plant)

	Units	Year ended 31 December 2016	Year ended 31 December 2015
Total milled	t '000	4,675	4,600
Average grade	g/t	1.28	1.14
Gold content	oz. '000	192.5	168.8
Recovery rate	%	93.5%	93.3
Gold recovered	oz. '000	180.0	157.6
Total gold recovered	oz. '000	180.0	157.6

The plant performed as expected, delivering on all technological performance indicators.

Now the Group's largest producing mine, Albyn has successfully been a key target for cost reduction. Total cash costs of US$581/oz were achieved, a 22% improvement on 2015, with all-in sustaining costs of US$719/oz, a 21% improvement on 2015. This was primarily due to higher processed grades and higher operational recoveries.

Exploration Overview
The Exploration programme was successful in the conversion of resources to reserves at Elginskoye. Mining preparation drilling at Unglichikan resulted in an increase in resources. Earlier stage exploration surveying and trenching yielded encouraging results for potential resource expansion at Yasnoye, Ulgen, and Sergeevskaya.

Exploration Performance
Exploration results obtained from other exploration targets within the Albyn project to date have been promising. The main orebodies at Albyn are open in a down dip direction beyond of the feasible depth of open pit mining. This offers exploration potential to establish mineral resource and ore reserves for underground mining.

2017 Outlook
The 2017 Albyn production profile continues to be underpinned by open pit operations at Albyn, with a moderate contribution from the Unglichikan deposit (as a new pit).

Based on recent successes extending mine life at Albyn with Elginskoye, the key focus for 2017 is on further exploration at Unglichikan and Afanasevskoye, to expand the non-refractory reserve and resource base and subsequent life of mine. In 2017, the Group plans to surrender the Kharginskoye licence as the decision has been made to concentrate exploration at better targets within other Albyn licences.

Malomir

Acquired as greenfield licence in 2003

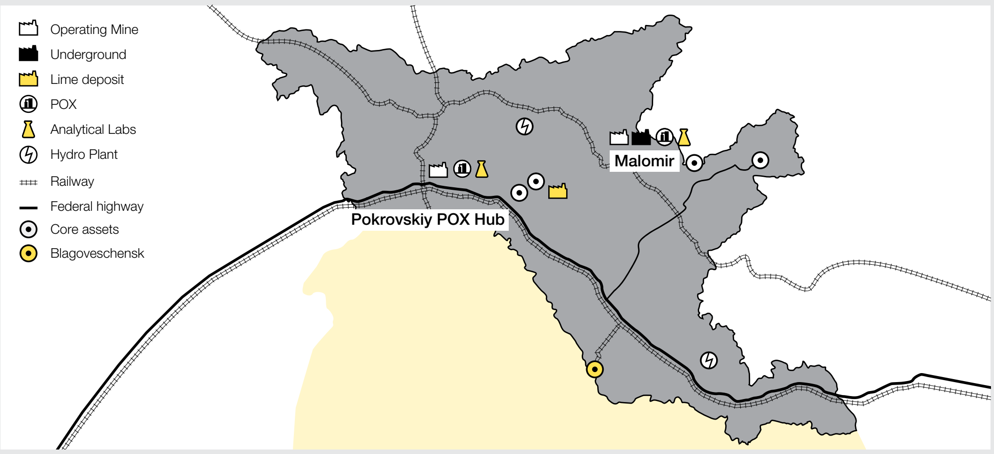
Developed into Petropavlovsk's largest asset by Reserve & Resource

Produced 542koz ounces gold since mid 2010

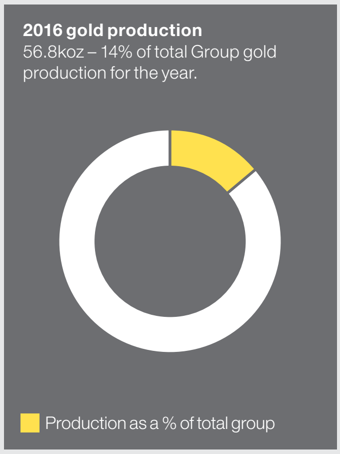
Expected +16 year life of mine.

Introduction

Malomir is the Group's largest asset by Reserves and Resources with approximately 90% of the Reserve base categorised as refractory ore. Completing the POX Hub, which is scheduled for the end of 2018, will unlock material value embedded with the existing defined asset base and extend the expected life of mine to greater than 16 years, with untapped resource potential within the 964km^2 licence area.



2016 gold production
56.8koz – 14% of total Group gold production for the year.



Key facts

- Located in the north-east of the Amur region, 550km from Blagoveshchensk, the China border trade city and regional business hub
  - BAM railway 130km away
- Hard rock non-refractory and refractory deposit
- Reserves and Resources 7.06Moz
  - 13% non-refractory Mineral Resource
  - 35% of total Mineral Rroup resource
- Open pit mining
  - Underground mining to commence H2 2017
- 3.0Mtpa RIP plant on site
- Annual LTIFR of 4.5 per million man hours worked.

2016 Progress

- Reduced total cash cost by 25%
- Completed underground feasibility study at Quartzitovoye and appointed underground contractor
- Increased existing underground Mineral Resource and defined first Ore Reserve at Quartzitovoye
- Enhanced understanding of high grade underground zones and continuity of mineralisation at depth.

2017 Targets

- Complete and commission the 3.6Mtpa (Stage 1) flotation plant, with production and stockpiling of refractory concentrate from early 2018 ahead of the POX Hub commissioning
- Commenced underground development at Quartzitovoye – mining scheduled to start from H2 2017
- Prepare underground drill chambers ahead of exploration drill programme to delineate the extent and continuity of the high grade mineralisation
- Sustain open pit mining and operating excellence
- Reduce LTIFR.

Geology
The Malomir licence 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 with associated hydrothermal mineralisation.

The Malomir project includes multiple identified orebodies of which Malomir, Quartzitovoye, Ozhidaemoye and Magnetitovoye are the most significant.

Mining and Processing
Malomir is an open pit operation. The mining fleet consists of 52 pieces of major mining equipment. Mining productivity and equipment utilisation is optimised by operating two daily shifts throughout the year.

Underground development commenced at Quartzitovoye, with ore mining due to begin in H2 2017.

The Malomir licence includes multiple orebodies, which contain both refractory and non-refractory ore. The higher grade non-refractory ore at Quartzitovoye and Magnetitovoye is processed at the 3.0Mtpa RIP plant, operational throughout the year. The refractory ore from Ozhidaemoye does not respond to standard RIP processing methods – specifically it is not suitable for direct cyanidation. The Group is currently developing a processing plant, the POX Hub, to treat the Group's significant refractory reserve base. This includes a 5.4Mtpa flotation plan at Malomir, which will be constructed in two stages. Stage 1 (3.6Mtpa) is expected to be commissioned by the end of 2017. The POX Hub is due to be completed and commissioning from Q4 2018. Planned production from refractory reserves relies on the completion of a flotation plant at Malomir, currently 90% complete and scheduled to be commissioned in Q4 2017. The flotation plant will convert the refractory reserves into higher grade flotation concentrate, which will be sent to the POX Hub for processing.

Malomir concentrate is scheduled to be processed from 2018.

Malomir mining operations

	Units	Year ended 31 December 2016	Year ended 31 December 2015
Total material moved	m3 '000	8,115	8,904
Ore mined	t '000	1,535	2,105
Average grade	g/t	1.11	1.01
Gold content	oz. '000	54.9	68.5

Processing operations (Resin-in-pulp plant)

	Units	Year ended 31 December 2016	Year ended 31 December 2015
Total milled	t '000	3,000	2,937
Average grade	g/t	0.86	0.93
Gold content	oz. '000	82.5	88.0
Recovery rate	%	68.9%	67.2
Gold recovered	oz. '000	56.8	59.1
Total gold recovered	oz. '000	56.8	59.1

Operational Performance
Malomir produced 56.8koz, representing 14% of the Group consolidated annual gold production. This was 4% lower than 2015 (2015: 59.1koz). Ore was mined throughout the year from Quartzitovoye 2, Magnetitovoye, and stockpiles. The average annual mined grade was 1.11g/t, a 10% improvement on 2015. This takes into account waste stripping at Quartzitovoye 1 throughout most of the year, in order to prepare access to ore for 2017.

The RIP plant processed 3.0Mtpa of ore, a 2% increase on 2015. Metallurgical recovery averaged 68.9%, a 3% improvement on 2015. The plant performed as expected in 2016, delivering on all technological performance indicators.

Total cash costs of US$824/oz were achieved, a 25% improvement on 2015, with all-in sustaining costs of US$1004/oz, a 15% improvement on 2015, primarily due to improved operational recoveries.

Exploration Overview
Drilling confirmed high grade mineralisation continues at depth, with the deepest holes greater than 440m below the surface (245m below the reserve pit) intersecting potentially economical grades and thicknesses. The orebody remains open in a down dip direction offering potential to increase resources further through additional exploration, which will be continued from the underground workings.

Deep drilling from the surface (up to 200m below the current pit floor) has successfully defined additional underground resource and first reserve, supporting a sustainable 6 year production plan at Quartzitovoye. The orebody remains open at depth.

2017 Outlook
The 2017 Malomir production profile is expected to be in line with 2016, with sustainable production upside from underground mining operations commencing in H2 2017.

In Q4 2017, Malomir will begin to transition into the Group's flagship asset in line with the scheduled completion and commissioning of the Stage 1 3.6Mtpa flotation plant to process refractory ore. From 2018, Malomir concentrate production and stockpiling will continue to ensure the POX Hub commissioning, scheduled for Q4 2018, runs smoothly.

Operational Performance continued

Pokrovskiy

Acquired by Pavel Maslovskiy, CEO in early exploration stage

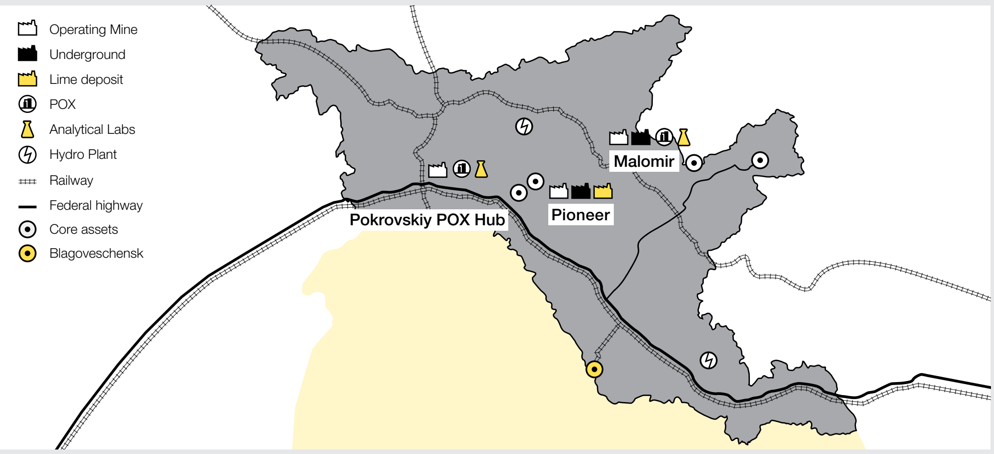
Petropavlovsk (formerly Peter Hambro Mining) was created in 1994 to finance the project

Produced 2.01Moz ounces gold since 1999

Strategic location to the transformative POX Hub.

Introduction

Pokrovskiy is the licence on which the Group was built. Today, as it nears the end of its mine life having produced 2.01Moz since 1999, the mine will transition into the POX Hub, currently under full scale production. The POX Hub is an integral part of the Group's future plans and Pokrovskiy provides the ideal strategic location, not only due to its excellent onsite and regional infrastructure, but also its close proximity to Pioneer's limestone deposit, limestone being a key ingredient for the pressure oxidation process.



2016 gold production
37.6 – 9% of total Group gold production for the year.

Production as a % of total group

Key facts

- Located in the south of the Amur region, 450km from Blagoveshchensk, the China border trade city and regional business hub.
  - Situated between the BAM and Trans-Siberian Railway, with the nearest station approximately 40km away
  - 88km from the largest regional hydropower station (5GW)
- Hard rock non-refractory and refractory deposit
- Reserves and Resources 1.39Moz
  - 7% total Group Mineral Resource
- Open pit mining
- 1.8Mtpa RIP plant and seasonal heap leach facility on site
- Annual LTIFR of 0.5 per million man hours worked.

2016 Progress

- Maintained total cash costs
- Reduction in sustaining capex as the mine prepares to be harvested from 2019
- In line with our development strategy to transition Pokrovskiy mine into the POX Hub, there was no material exploration in 2016
- Completed and implemented resin cleansing facility.

2017 Targets

- Infrastructure adapted and transitioned where appropriate for the POX Hub
- Workforce utilised and transitioned to the POX Hub.

Geology
Pokrovskiy is located on the south side of the Mongolo-Okhotskiy regional belt, approximately 40km south of Pioneer, which in addition to gold hosts a significant limestone deposit.

Mining and Processing
Pokrovskiy is a multiple open pit operation.

The Pokrovskiy licence includes multiple defined orebodies. All are non-refractory and can be treated at the 1.8Mtpa RIP plant, which operates throughout the year.

Low grade ore (<0.5g/t) is processed via an onsite heap leach operations.

Operational Performance
Pokrovskiy produced 37.6koz (2015: 56koz) representing 9% of the Group's consolidated annual gold production. Ore was mined from Pokrovka 1, Pokrovka 2, satellite deposit Zheltunak and from stockpiles.

Despite the unusual weather conditions causing some delays to the heap leach operations, successful scheduling adjustments meant target stacking and production were achieved as planned. The heap leach operation produced 4.1koz.

The RIP plant processed 1.79Mtpa of ore, unchanged from 2015. Metallurgical recovery at the plant averaged 90.1%, a 7% improvement on 2015 despite a 38% decrease in head grades from 1.04 to 0.65g/t.

The plant performed as expected, delivering on all technological performance indicators.

Total cash costs of US$878/oz were achieved, a 1% increase on 2015, with all-in sustaining costs of US$988/oz, an 8% increase on 2015.

Outlook
As Pokrovskiy is coming to the end of its reserves, RIP production is scheduled to stop at the end of 2017. The heap leach will remain operational throughout 2018 to process remaining stockpiles. The Group is actively developing the POX Hub, which is scheduled to commence producing refractory concentrate from Q4 2018. Pokrovskiy will continue its life as the POX Hub, Petropavlovsk's strategic processing centre for refractory concentrates.

Pokrovskiy mining operations

	Units	Year ended 31 December 2016	Year ended 31 December 2015
Total material moved	m3 '000	4,709	5,169
Ore mined	t '000	1,027	933
Average grade	g/t	0.79	1.41
Gold content	oz. '000	26.0	42.2

Processing operations (Resin-in-pulp plant)

	Units	Year ended 31 December 2016	Year ended 31 December 2015
Total milled	t '000	1,791	1,791
Average grade	g/t	0.65	1.04
Gold content	oz. '000	37.1	59.7
Recovery rate	%	90.1%	84.3
Gold recovered	oz. '000	33.5	50.4
Heap leach operations			
Ore stacked	t '000	440	541
Average grade	g/t	0.45	0.53
Gold content	oz. '000	6.3	9.2
Recovery rate	%	64.8%	60.6
Gold recovered	oz. '000	4.1	5.6
Total gold recovered	oz. '000	37.6	56.0

Following the successful debt restructuring in 2016, the Group resumed development of the Pressure Oxidation Facility (POX Hub) at Pokrovskiy. Utilising and adapting existing infrastructure (including the 1.8Mtpa RIP plant) has a beneficial impact on capital costs, with US$90million gross value for buildings and equipment being incorporated directly into the POX Hub facility.

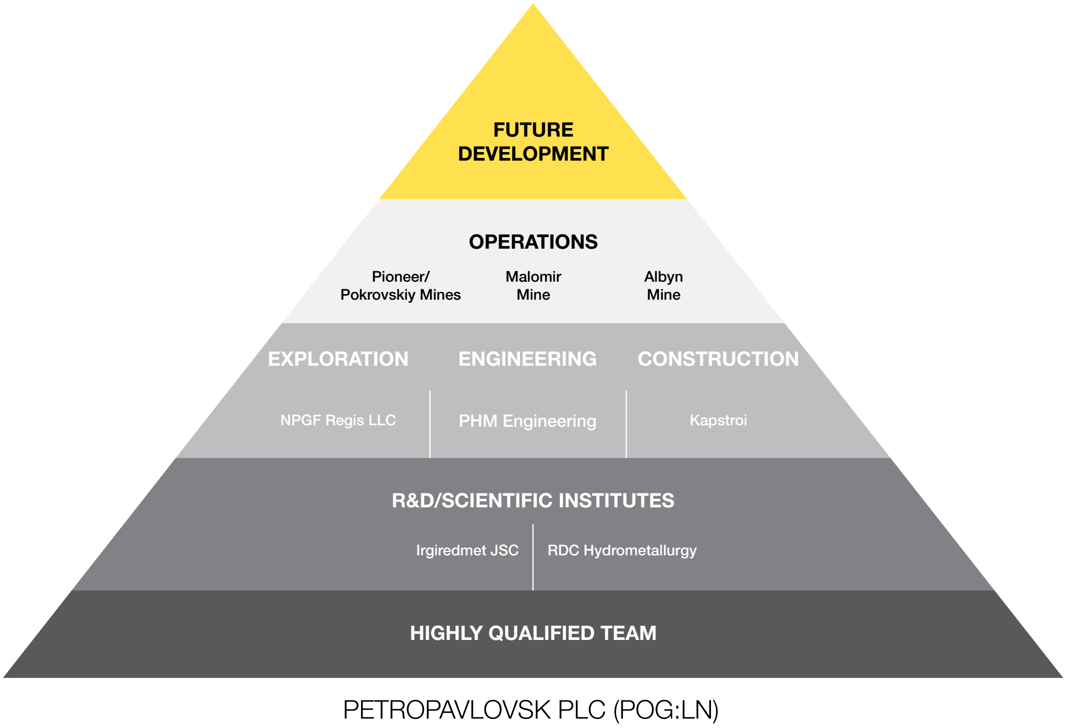
Other projects

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 reopening 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 2016. Tokur has been fully impaired (in a previous year) and the Group intends to review its development plans in the medium term.

Development Projects



Underground

In 2016, following successful feasibility studies, it was concluded that underground operations at Pioneer and Malomir would be economically viable and provide access to considerably higher grade, non-refractory ore with which to further support sustainable long term production. The successful implementation of underground operations would support Petropavlovsk's strategy by further simplifying cost structure and by maximising cash generation via improved access to the Group asset base.

Pioneer – NE Bakhmut Underground Mine Development

2016 Progress

Appointed underground contractor for immediate mobilisation of personnel and equipment. The construction of access and ventilation decline portals was completed in H2. Development of the declines has progressed well throughout the period. A total of 675m decline had been completed.

Successful deep level surface drilling, targeting high grade down dip extensions confirmed the continuation of mineralisation at depth and resulted in a maiden Ore Reserve of 165koz. Total Mineral Resource of 299koz, a 300% increase from 2015, including a 340% increase in Indicated Resource category.

2017 Priorities

The mine plan schedules for first stope mining from the moderate grade Bridge area in Q2 2017. The higher grade areas are within the NE Bakhmut 2 and NE Bakhmut 3 zones. NE Bakhmut 3 is scheduled to be accessed in H2 2017.

Development and preparation of underground drill platforms to commence underground exploration drill programme to delineate the extent and continuity of the high grade mineralisation that remains open in multiple directions.

Malomir – Quartzitovoye Underground Mine Development

2016 Progress

In Q4, appointed underground contractor for mobilisation of personnel and equipment in Q1 2017.

Successful deep level surface drilling, targeting high grade down dip extensions confirmed the continuation of mineralisation at depth and resulted in a defined maiden Ore Reserve of 207koz @ 5.85 g/t, underpinning a five year life of mine production plan. The total Mineral Resource is 283koz, including a 236% increase in the Indicated Resource category.

2017 Priorities

Commencement of development. The mine plan schedules for first stope mining in H2 2017.

POX Hub

Petropavlovsk's POX Hub will be the second of its kind in Russia. The successful 2016 refinancing enabled the Company to recommence development works, which will be self funded through free cash flow. With key contracts renewed and key equipment assessed, solid progress is now being made towards commissioning.

Why POX? Over 50% of Petropavlovsk's existing Reserve base consists of refractory ore – ore that cannot easily be processed via traditional cyanide based methods. The POX Hub will unlock this value, equating to c.15 years of sustainable refractory production.

Further upside potential exists in several forms. Exploration work has identified multiple refractory targets at Pioneer and Malomir, as well as mineralisation at Albyn. The Hub was designed so that two additional autoclaves could be installed in the future, which would increase processing capacity by 30% to 650ktpa.

This could prove especially lucrative if the Group were able to treat refractory ore from third parties, given the large amount of undeveloped refractory mineralisation in the region. Petropavlovsk could also use the Hub to assess ore from deposits available for acquisition, perhaps most meaningfully those abandoned during the Soviet era with rich reserve and resource potential due to a lack of technology. Finally, there is the possibility of selling concentrate to generate revenue in the near term ahead of the POX Hub being commissioned.

Construction at Malomir (Stage 1) is 90% complete, and at the POX Hub is 65% complete.

Project Economics

In 2016, as part of the bank debt refinancing, the Company updated the 2010 feasibility project economics ahead of the development reboot.

– Total outstanding POX hub pre production estimated capex – c.US$120million, inc. contingency.
This includes total outstanding estimated capex for Malomir flotation plant – US$32million (at 31.12.16)

– Updated operating cost estimates – US$615-675/oz for Malomir/ US$785-865/oz for Pioneer.

The updated project economics account for updated operating and capital costs:

	Project NPV (10%)	Project IRR (%)	Project payback (years)	Revenue 2018 - 2032 (US$m)	Average production 2018 - 2032 (koz pa)
Base case	603	65	3.25	3,965	220

(Assuming LT avg gold price US$1,200/oz, FX USD:RUR 60). The project economics are unaudited.

Refinancing

The refinancing of the Group's bank debt totalling c.US$430 million (December 2016) required 100% self funding of the POX Hub from internal cash flow generated by the Group's current non refractory operations. This was modelled based on an average US$1250/oz gold price throughout the construction and ramp up phase.

The Sberbank US$100million commodity linked loan facility remains on schedule for completion of final documentation effective Q2 2017. As at 26 April 2017, the Company has hedged 547koz of gold at US$1,253/oz over 2017-2019.

Malomir Project Parameters[1]

Malomir Flotation Plant		Malomir
Ore Processed	kt	5,400
Flotation Recovery	%	86%
Sulphur Content	%	25%
Concentrate Yield	mass %	5.50%
Concentrate Grade	g/t	24
POX Hub		
Concentrate Processed	kt	300-330
Gold Recovery	%	93%
Total POX Hub Recovery	%	79%
Total Operating Costs (inc. Flotation)	US$/oz	615-675

Project economics includes production concentrate from Pioneer, which is scheduled to commence from 2023.

Key Construction Milestones

2017
– **POX Hub:** the oxygen plant, supporting POX Hub infrastructure and all piping, welding and assembly works are scheduled for completion
– **Malomir flotation:** Stage 1 (3.6Mtpa) is scheduled for completion and commissioning.

2018
– **Malomir:** concentrate production and stockpiling will be ongoing throughout 2018 ensuring a smooth ramp up
– **POX Hub:** the completion of the autoclave plant, RIP refurbishment and Hub integration are to be completed by Q3 2018
  – Scheduled to commence a staged dry and wet commissioning, one autoclave at a time.

The ramp up to commercial production is due to occur throughout 2019.

Upside Potential

Exploration

At Malomir, exploration work has identified several highly prospective satellite refractory targets for further exploration work, including Ozhidaemoe. At Pioneer, refractory targets have been identified south of the main Pioneer orebody zone. Initial exploration drill results included: 68.4m@0.65g/t, 48.1m@0.74g/t and 30.9m@0.79g/t. The Alexandra zone and Sosonovaya licence are also expected to provide further refractory resource upside. There is also known refractory mineralisation with the Albyn licence holding. The Company continues to explore the potential for further mine life extension and production expansion.

Capacity

The autoclave plant was designed and constructed to allow for an additional two autoclaves to be installed, increasing processing capacity by 30% to 650ktpa.

Marketing Optionality

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 beyond its own existing reserves and potential reserves.

Selling Concentrate

Market analysis is being carried out to explore the possible economic benefit of selling concentrate to generate near term revenue stream ahead of the POX Hub commissioning.

Third Party Tolling

The POX Hub could treat third party refractory ore under a tolling arrangement. As part of running optimisation scenarios on our production plan, upside opportunities exist for increasing the concentrate grade of the feed to the POX Hub organically within our own assets or in cooperation with third party high grade ore.

Regional Licence Acquisition

The POX Hub also creates opportunities to treat ores from deposits available for acquisition in the Amur region, especially those with significant reserves and resources but abandoned during the Soviet Era due to a lack of technology.

Reserves and Resources

Since 2008 and in accordance with best industry practices, the Group has been reporting its Mineral Resources and Ore Reserves in accordance with JORC Code. Following the strategic disposal of the non core projects Visokoye, Yamal and Nimanskaya in 2016, all the Group's remaining mining assets are located in the Amur Region.

Total Mineral Resource ounces (including Reserves) as of 31 December 2016 amounted to 20.16Moz, compared to 23.29Moz in 2015, with a total Ore Reserve of 7.95Moz compared to 8.41Moz the previous year. The decrease was mainly driven by the disposals of capital intensive non-core assets and to a lesser extent by mine depletion.

A total of 1.22Moz of Ore Reserves were disposed of with Visokoye, whilst 3.55Moz of Mineral Resources (including Ore Reserves) were disposed of with the Visokoye and Yamal projects. Full Mineral Resource and Ore Reserve statements for Visokoye and Yamal can be found in the Petropavlovsk Annual Report and Accounts 2015.

During 2016, the Group made exceptionally good progress developing Ore Reserves at Elginskoye, one of the significant satellite orebodies within the Albyn project area. Successful exploration and a feasibility study resulted in an increase in JORC Ore Reserves at Elginskoye from 0.28 to 1.24Moz (a 340% increase), providing a solid foundation for Albyn's long term production. We also achieved a remarkable 76% increase in Mineral Resources for underground mining from 0.42 to 0.74Moz, and received our first maiden underground Ore Reserve estimate amounted to 0.37Moz.

This includes a new Pioneer NE Bakhmut underground Ore Rreserve of 0.17Moz @ 4.46g/t, and 0.21Moz @ 5.85g/t at Malomir Quartzitovoe 1. The new Ore Reserve will support 6 year life of mine (LOM) for both mines with strong potential for resource, reserve and consequent LOM expansion.

Overall, we successfully converted c.1.55Moz of Mineral Resources into Ore Reserves during 2016.

Pioneer, Albyn, Malomir and Pokrovskiy Mineral Resource and Ore Reserve statements were prepared by Wardell Armstrong International in April 2017 in accordance with JORC Code (2012). A summary of their technical audit can be found on the company web site.

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

Total Ore Reserves for open pit and underground extraction (as at 31 December 2016)
(in accordance with JORC Code)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	32,032	0.82	0.84
	Probable	229,667	0.96	7.11
	Proven+Probable	261,699	0.95	7.95
Non-Refractory	*Proven*	22,177	0.69	0.49
	Probable	95,632	1.10	3.39
	Proven+Probable	117,809	1.03	3.88
Refractory	*Proven*	9,854	1.11	0.35
	Probable	134,036	0.86	3.72
	Proven+Probable	143,890	0.88	4.07

Note: Figures may not add up due to rounding.

Total Ore Reserves for open pit extraction (as at 31 December 2016)
(in accordance with JORC Code)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	32,032	0.82	0.84
	Probable	227,415	0.92	6.74
	Proven+Probable	259,446	0.91	7.58
Non-Refractory	*Proven*	22,177	0.69	0.49
	Probable	93,379	1.01	3.02
	Proven+Probable	115,557	0.95	3.51
Refractory	*Proven*	9,854	1.11	0.35
	Probable	134,036	0.86	3.72
	Proven+Probable	143,890	0.88	4.07

Note: Figures may not add up due to rounding.

Total Ore Reserves for underground extraction (as at 31 December 2016)
(WAI April 2017, in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	–	–	–
	Probable	2,253	5.14	0.37
	Proven+Probable	2,253	5.14	0.37
Non-Refractory	*Proven*	–	–	–
	Probable	2,253	5.14	0.37
	Proven+Probable	2,253	5.14	0.37
Refractory	*Proven*	–	–	–
	Probable	–	–	–
	Proven+Probable	–	–	–

Note: Figures may not add up due to rounding.

Total Mineral Resource for potential open pit and underground extraction (as at 31 December 2016)
(in accordance with JORC Code)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	51,859	0.94	1.57
	Indicated	418,167	0.89	11.96
	Sub total (M+I)	470,026	0.90	13.53
	Inferred	257,409	0.80	6.63
Non-Refractory	*Measured*	33,654	0.91	0.99
	Indicated	207,117	0.96	6.36
	Sub total (M+I)	240,771	0.95	7.35
	Inferred	115,328	0.96	3.55
Refractory	*Measured*	18,205	0.99	0.58
	Indicated	211,050	0.82	5.60
	Sub total (M+I)	229,255	0.84	6.18
	Inferred	142,081	0.67	3.08

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

Total Mineral Resource for potential open pit extraction (as at 31 December 2016)
(in accordance with JORC Code)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	51,859	0.94	1.57
	Indicated	415,393	0.85	11.37
	Sub total (M+I)	467,252	0.86	12.94
	Inferred	256,155	0.79	6.48
Non-Refractory	*Measured*	33,654	0.91	0.99
	Indicated	204,343	0.88	5.78
	Sub total (M+I)	237,997	0.88	6.76
	Inferred	114,074	0.93	3.40
Refractory	*Measured*	18,205	0.99	0.58
	Indicated	211,050	0.82	5.60
	Sub total (M+I)	229,255	0.84	6.18
	Inferred	142,081	0.67	3.08

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

Reserves and Resources continued

Total Mineral Resource for potential underground extraction (WAI April 2017, as at 31 December 2016)
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	–	–	–
	Indicated	2,774	6.56	0.59
	Sub total (M+I)	2,774	6.56	0.59
	Inferred	1,254	3.92	0.16
Non-Refractory	*Measured*	–	–	–
	Indicated	2,774	6.56	0.59
	Sub total (M+I)	2,774	6.56	0.59
	Inferred	1,254	3.92	0.16
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Sub total (M+I)	–	–	–
	Inferred	–	–	–

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

Summary of Ore Reserves by asset (as at 31 December 2016)

Pioneer
(WAI, April 2017, in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	15,585	0.68	0.34
	Probable	86,876	0.82	2.29
	Proven+Probable	102,460	0.80	2.63
Non-Refractory Open Pit	*Proven*	14,122	0.65	0.30
	Probable	30,243	0.73	0.71
	Proven+Probable	44,366	0.70	1.00
Non-Refractory Underground	*Proven*	–	–	–
	Probable	1,154	4.46	0.17
	Proven+Probable	1,154	4.46	0.17
Subtotal Non-Refractory Open Pit and Underground	*Proven*	14,122	0.65	0.30
	Probable	31,398	0.86	0.87
	Proven+Probable	45,520	0.80	1.17
Refractory Open Pit	*Proven*	1,462	0.87	0.04
	Probable	55,478	0.80	1.42
	Proven+Probable	56,940	0.80	1.46
Subtotal Non-Refractory and Refractory Open Pit	*Proven*	15,585	0.68	0.34
	Probable	85,721	0.77	2.13
	Proven+Probable	101,306	0.76	2.46

Albyn
(WAI, April 2017, in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total Mineral Resources	*Proven*	4,952	0.51	0.08
	Probable	52,302	1.18	1.98
	Proven+Probable	57,254	1.12	2.06
Non-Refractory Open Pit	*Proven*	4,952	0.51	0.08
	Probable	52,302	1.18	1.98
	Proven+Probable	57,254	1.12	2.06
Refractory Open Pit	*Proven*	–	–	–
	Probable	–	–	–
	Proven+Probable	–	–	–

Note: All Albyn Ore Reserve is for open pit extraction.

Summary of Ore Reserves by asset (as at 31 December 2016)

Malomir
(WAI, April 2017, in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	8,416	1.15	0.31
	Probable	86,755	0.97	2.70
	Proven+Probable	95,171	0.98	3.01
Non-Refractory Open Pit	*Proven*	24	1.16	0.001
	Probable	7,100	0.83	0.19
	Proven+Probable	7,124	0.83	0.19
Non-Refractory Underground	*Proven*	–	–	–
	Probable	1,098	5.85	0.21
	Proven+Probable	1,098	5.85	0.21
Subtotal Non-Refractory Open Pit and Underground	*Proven*	24	1.16	0.001
	Probable	8,198	1.50	0.40
	Proven+Probable	8,222	1.50	0.40
Refractory Open Pit	*Proven*	8,392	1.15	0.31
	Probable	78,557	0.91	2.30
	Proven+Probable	86,949	0.93	2.61
Subtotal Non-Refractory and Refractory Open Pit	*Proven*	8,416	1.15	0.31
	Probable	85,657	0.90	2.49
	Proven+Probable	94,073	0.93	2.80

Pokrovskiy & Burinda
(WAI, April 2017, in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	1,051	0.55	0.02
	Probable	1,540	0.74	0.04
	Proven+Probable	2,590	0.66	0.06
Non-Refractory Open Pit	*Proven*	1,051	0.55	0.02
	Probable	1,540	0.74	0.04
	Proven+Probable	2,590	0.66	0.06
Refractory Open Pit	*Proven*	–	–	–
	Probable	–	–	–
	Proven+Probable	–	–	–

Note: All Pokrovskiy&Burinda Ore Reserve is for open pit extraction.

Tokur
(WAI, 2010, 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 Open Pit	*Proven*	2,028	1.47	0.10
	Probable	2,195	1.44	0.10
	Proven+Probable	4,223	1.45	0.20
Refractory Open Pit	*Proven*	–	–	–
	Probable	–	–	–
	Proven+Probable	–	–	–

Note: All Tokur Ore Reserve is for open pit extraction

Notes on Ore Reserve statement:

(1) Group Ore Reserves statements are prepared by WAI; Pokrovskiy, Pioneer, Malomir and Albyn Reserves are prepared in April 2017 in accordance with JORC Code 2012; Tokur Reserves are prepared in 2010 in accordance with JORC Code 2004

(2) Pioneer, Malomir Albyn and Pokrovskiy Ore Reserves for open pit extraction are estimated within economical pit shells using a $1,200/oz gold price assumption and applying other modifying factors based on projected performance of these operating mines. Tokur Reserves have been based on a $1,000/oz gold price assumption, together with the operating costs assumptions relevant at the time of the estimate.

(3) Open Pit Reserve cut off grade for reporting varies from 0.3 to 0.5g/t Au, depending on the asset and processing method.

(4) Underground Ore Reserve estimates use mine design with decline access and trackless mining equipment; variants of open stoping with predominantly uncemented back fill are used; Ore Reserve figures have been adjusted for anticipated dilution and mine recovery.

(5) Underground Reserve cut off grade for reporting is 1.5g/t Au for Pioneer and 1.7g/t Au for Malomir.

(6) Figures may not add up due to rounding.

Summary of Mineral Resources by asset (as at 31 December 2016)

Pioneer

(WAI, April 2017, in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	19,520	0.68	0.43
	Indicated	160,670	0.75	3.89
	Measured+Indicated	180,190	0.74	4.32
	Inferred	57,058	0.66	1.20
Non-Refractory Open Pit	*Measured*	9,842	0.58	0.18
	Indicated	64,520	0.63	1.30
	Measured+Indicated	74,362	0.62	1.48
	Inferred	21,883	0.66	0.46
Non-Refractory Underground	*Measured*	–	–	–
	Indicated	1,924	5.82	0.36
	Measured+Indicated	1,924	5.82	0.36
	Inferred	765	4.05	0.10
Sub total Non-Refractory (Open Pit and Underground)	*Measured*	9,842	0.58	0.18
	Indicated	66,444	0.78	1.66
	Measured+Indicated	76,286	0.75	1.84
	Inferred	22,648	0.77	0.56
Refractory Open Pit	*Measured*	9,678	0.79	0.25
	Indicated	94,226	0.74	2.23
	Measured+Indicated	103,904	0.74	2.48
	Inferred	34,410	0.58	0.64
Sub total Open Pit (Refractory and Non-Refractory)	*Measured*	19,520	0.68	0.43
	Indicated	158,746	0.69	3.53
	Measured+Indicated	178,266	0.69	3.95
	Inferred	56,293	0.61	1.10

Albyn

(WAI, April 2017, in accordance with JORC Code 2012)

		Non-Refractory		
	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	5,049	0.52	0.09
	Indicated	74,025	1.13	2.69
	Sub total (M+I)	79,074	1.09	2.78
	Inferred	60,442	1.02	1.99
Non-Refractory	*Measured*	5,049	0.52	0.09
	Indicated	74,025	1.13	2.69
	Sub total (M+I)	79,074	1.09	2.78
	Inferred	60,442	1.02	1.99
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Sub total (M+I)	–	–	–
	Inferred	–	–	–

Note: All Albyn Mineral Resources is for open pit extraction

Reserves and Resources continued

Malomir
(WAI, April 2017, in accordance with JORC Code 2012)

	Category	Non-Refractory Tonnage (kt)	Non-Refractory Grade (g/t Au)	Non-Refractory Gold (Moz Au)
Total	*Measured*	8,558	1.21	0.33
	Indicated	135,865	0.91	3.99
	Measured+Indicated	144,423	0.93	4.33
	Inferred	118,944	0.71	2.73
Non-Refractory Open Pit	*Measured*	31	1.19	0.001
	Indicated	18,191	0.68	0.40
	Measured+Indicated	18,222	0.68	0.40
	Inferred	10,784	0.68	0.24
Non-Refractory Underground	*Measured*	–	–	–
	Indicated	850	8.23	0.23
	Measured+Indicated	850	8.23	0.23
	Inferred	489	3.72	0.06
Sub total Non-Refractory (Open Pit and Underground)	*Measured*	31	1.20	0.001
	Indicated	19,041	1.02	0.62
	Measured+Indicated	19,072	1.02	0.63
	Inferred	11,273	0.81	0.29
Refractory Open Pit	*Measured*	8,527	1.21	0.33
	Indicated	116,824	0.90	3.37
	Measured+Indicated	125,351	0.92	3.70
	Inferred	107,671	0.70	2.44
Sub total Open Pit (Refractory and Non-Refractory)	*Measured*	8,558	1.21	0.33
	Indicated	135,015	0.87	3.77
	Measured+Indicated	143,573	0.89	4.10
	Inferred	118,455	0.70	2.68

Note: All Albyn Mineral Resources is for open pit extraction

Pokrovka & Burinda
(WAI, April 2017, in accordance with JORC Code 2012)

	Category	Non-Refractory Tonnage (kt)	Non-Refractory Grade (g/t Au)	Non-Refractory Gold (Moz Au)
Total	*Measured*	6,780	1.01	0.22
	Indicated	31,511	0.83	0.84
	Measured+Indicated	38,291	0.86	1.06
	Inferred	10,259	0.99	0.33
Non-Refractory	*Measured*	6,780	1.01	0.22
	Indicated	31,511	0.83	0.84
	Measured+Indicated	38,291	0.86	1.06
	Inferred	10,259	0.99	0.33
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Measured+Indicated	–	–	–
	Inferred	–	–	–

Note: All Albyn Mineral Resources is for open pit extraction

Tokur
WAI, 2010, in accordance with JORC Code 2004)

	Category	Non-Refractory Tonnage (kt)	Non-Refractory Grade (g/t Au)	Non-Refractory Gold (Moz Au)
Total	*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	*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	*Measured*	–	–	–
	Indicated	–	–	–
	Measured+Indicated	–	–	–
	Inferred	–	–	–

Note: All Tokur Mineral Resources is for open pit extraction

Notes to Mineral Resource Statement:

(1) Mineral Resources include Ore Reserves.

(2) Mineral Resources for Pokrovskiy, Pioneer, Malomir and Albyn are audited by WAI in accordance with JORC Code 2012 in April 2015 with a further review of changes in April 2016 and April 2017; Mineral Resources for Tokur reviewed by WAI in 2010 in accordance with JORC Code 2004.

(3) Open Pit Mineral Resources for Pokrovskiy, Pioneer, Malomir and Albyn are constrained by conceptual open pit shells at a US$1,500/oz long term gold price.; Tokur Mineral Resources have no open pit constraints.

(4) The cut off grade for the Mineral Resource for open pit mining varies from 0.30 to 0.4g/t depending on the type of mineralisation and proposed processing method.

(5) Minimum mining widths dependant on reconciliation have been applied to the open pit Mineral Resource.

(6) Mineral Resources for potential underground extraction were audited by WAI in accordance with JORC Code 2012 in April 2017.

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

(8) Mineral Resources are not Reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.

(9) Grade represents estimated contained metal in the ground and has not been adjusted for metallurgical recovery.

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 31.1% stake in IRC.

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

- K&S. An ongoing project at an advanced stage of development, which started trial production in 2016. The project has two phases and is located in the Jewish Autonomous Region (EAO) of the Russian Far East
- Kuranakh. An iron ore/ilmenite concentrate mine located in the Amur region, 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 and Kostenginskoye.

- 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 Garinskoye Flanks and Kostenginskoye are yet to have JORC compliant Mineral Resources and Ore Reserves.

In addition to these assets, IRC also operates:

- Giproruda. 70% owned by IRC, 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 2016

K&S
During the year, Phase One K&S commenced final hot commissioning and in H2 entered a trial production phase. Phase One K&S is expected to be able to produce 3.2 million tonnes of iron ore concentrate with a 65% iron (Fe) content, once completed and at full capacity. At the end of 2016, it had produced over 160,000 tonnes of iron ore concentrate.

IRC also reached an amicable settlement with CNEEC, of which IRC received cash compensation of US$4.5 million, as well as a smaller outstanding construction payment liability (US$3.9 million less). IRC reserves the right to claim for further penalties from the contractor.

Regarding the K&S loan, ICBC has agreed to restructure the remaining repayments under the Project Finance Facility. Accordingly, the two repayment instalments originally due in 2017, which amounted to a total of c. US$43 million, shall be repayable in the five subsequent repayment instalments. For details, please refer to IRC's announcements dated 27 February and 21 March 2017.

Kuranakh
Kuranakh was moved to care and maintenance in the beginning of 2016 in response to a difficult operating environment. IRC considered the process to be satisfactory throughout 2016 with only minimal costs necessary to maintain security and equipment.

During the year, the annual sales volume was 219,352 tonnes for the remaining iron ore concentrate, and the sales volume of ilmenite concentrate was 60,044 tonnes. The segmental revenue of the mine was US$15.6 million.

Garinskoye
Garinskoye remains an attractive, low cost, large scale, DSO style greenfield project. IRC did not develop it in 2016 due to capital constraints, 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 2016.

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.

In addition, near the end of 2016, IRC completed the issuance of new shares to a new core investor, with an additional new member joining the Board. Tiger Capital Fund injected c. US$25 million into IRC for newly issued IRC shares, giving them a 13.22% shareholding, and Mr Cheng Chi Kin (representing Tiger Capital Fund) joined the Board of IRC as Non Executive Director, providing further diversity, expertise and experience to the Board.

As a result of the above, Petropavlovsk's stake in IRC reduced from 35.83% to 31.10%. The Group remains a major shareholder. IRC remains 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.


ПЕТРОПАВЛОВСК
ГРУППА КОМПАНИЙ
ПЕТРОПАВЛОВСК

Chief Financial Officer's Statement

For the year ended 31 December 2016

Andrey Maruta

Financial Highlights

	2016 US$ million	2015 US$ million
Continuing operations		
Total attributable gold production ('000oz)	416.3	504.1
Gold sold ('000oz)	399.9	481.9
Group revenue	540.7	599.9
Average realised gold price (US$/oz)	1,222	1,178
Average LBMA gold price afternoon fixing (US$/oz)	1,250	1,160
Total average cash costs (US$/oz)[(a)]	660	749
All-in sustaining costs[(b)]	807	874
Underlying EBITDA[(c)]	200.1	172.8
Profit/(loss) for the period	31.7	(297.5)
From continuing operations	31.7	(190.5)
From discontinued operations	–	(107.0)
Basic profit/(loss) per share	US$0.01	(US$0.09)
From continuing operations	US$0.01	(US$0.07)
From discontinued operations	–	(US$0.02)
Net cash from operating activities	37.0	103.4
From continuing operations	37.0	111.0
From discontinued operations	–	(7.6)

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

(b) 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.

(c) Reconciliation of profit/(loss) for the period and underlying EBITDA is set out in note 34 to the consolidated financial statements.

	31 December 2016 US$ million	31 December 2015 US$ million
Cash and cash equivalents	12.6	28.2[(d)]
Loans	(522.8)	(552.8)
Convertible bonds[(e)]	(88.4)	(85.5)
Net Debt	(598.6)	(610.0)

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

(e) US$100.0 million convertible bonds due on 18 March 2020 at amortised cost.

Note: Figures may not add up due to rounding.

Revenue

	2016 US$ million	2015 US$ million
Revenue from hard rock mines	490.0	568.7
Revenue from other operations	50.7	31.2
	540.7	599.9

Physical volumes of gold production and sales

	2016 oz	2015 oz
Gold sold from hard rock mines	399,858	481,884
Movement in gold in circuit and doré bars	16,442	22,216
Total attributable production	416,300	504,100

Group revenue during the period was US$540.7 million, 10% lower than the US$599.9 million achieved in 2015.

Revenue from hard rock mines was US$490.0 million, 14% lower than the US$568.7 million achieved in 2015. Gold remains the key commodity produced and sold by the Group, comprising 90% of total revenue generated in 2016. The physical volume of gold sold from hard rock mines decreased by 17% from 481,884 ounces in 2015 to 399,858 ounces in 2016. The average realised gold price increased by 4% from US$1,178/oz in 2015 to US$1,222/oz in 2016. Average realised gold price includes US$(21)/oz effect from hedge arrangements (2015: US$20/oz).

Hard rock mines sold 98,231 ounces of silver in 2016 at an average price of US$16/oz, compared to 68,075 ounces in 2015 at an average price of US$15/oz.

Revenue generated as a result of third party work by the Group's in house service companies was US$50.7 million in 2016, a US$19.5 million increase compared to US$31.2 million in 2015. This revenue is substantially attributable to sales generated by Group's engineering and research institute, Irgiredmet, primarily through engineering services and the procurement of materials, consumables and equipment for third parties, which comprised US$44.8 million in 2016 compared to US$28.6 million in 2015.

Cash flow hedge arrangements

In order to increase certainty in respect of a significant proportion of its cash flows, the Group has entered into a number of gold forward contracts.

Forward contracts to sell an aggregate of 134,545 ounces of gold matured during the year and resulted in US$(8.5) million net cash settlement paid by the Group (2015: US$12.6 million contribution to cash revenue from forward contracts to sell an aggregate of 178,449 ounces of gold).

The Group constantly monitors gold price and hedges some portion of production as considered necessary. Forward contracts to sell an aggregate of 50,006 ounces of gold at an average price of US$1,303 per ounce were outstanding as at 31 December 2016.

In February - March 2017, the Group entered into forward contracts to sell an aggregate of 549,994 ounces of gold during the years 2017 - 2019 at an average price of US$1,252/oz, thus, satisfying bank debt refinancing conditions. Forward contracts to sell an aggregate of 546,968 ounces of gold at an average price of US$1,253 per ounce are outstanding as at 26 April 2017.

Underlying EBITDA and analysis of operating costs

	2016 US$ million	2015 US$ million
Profit/(loss) for the period from continuing operations	31.7	(190.5)
Add/(less):		
Interest expense	61.0	71.5
Investment income	(0.6)	(1.0)
Other finance gains	(11.9)	(9.1)
Other finance losses	1.5	–
Foreign exchange losses	5.2	12.0
Taxation	(4.7)	48.9
Depreciation	105.3	129.1
Impairment of exploration and evaluation assets	9.2	37.4
Impairment of ore stockpiles	1.2	17.4
Share of results of associates [(a)]	2.4	57.0
Underlying EBITDA	200.1	172.8

(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.

	2016 US$ million	2015 US$ million
Pioneer	79.2	118.6
Pokrovskiy	13.2	16.1
Malomir	22.0	5.7
Albyn	110.4	66.5
Total Hard rock mines	224.7	206.9
Corporate and other	(24.6)	(34.1)
Underlying EBITDA	200.1	172.8

Hard rock mines
This period, hard rock mines generated underlying EBITDA of US$224.7 million compared to US$206.9 million underlying EBITDA in 2015.

Total cash costs for hard rock mines decreased from US$749/oz in 2015 to US$660/oz in 2016, primarily reflecting the effect of cost optimisation measures undertaken by the Group in response to the lower gold price environment as well as the positive effect of Rouble depreciation. The increase in the average realised gold price from US$1,178/oz in 2015 to US$1,222/oz in 2016 and the improved total cash costs had US$53.2 million positive contribution to underlying EBITDA in 2016. This effect was offset by the decrease in physical ounces sold which resulted in a US$35.2 million decrease in underlying EBITDA.

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

Compared with 2015 there was no significant inflation of Rouble denominated costs, in particular, electricity costs increased by up to 3% in Rouble terms (decreased by up to 6% in US Dollar terms) while the cost of diesel remained at the same level (decreased by up to 9% in US Dollar terms). The impact of Rouble price inflation was mitigated by the 10% average depreciation of the Rouble against the US Dollar, with the average exchange rate for the period increasing from 61.30 Roubles per US Dollar in 2015 to 67.18 Roubles per US Dollar in 2016.

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%. Since the second half of 2016, the Group applies two year mining tax concession.

	2016		2015	
	US$ million	%	US$ million	%
Staff cost	54.7	21	61.8	19
Materials	97.4	37	129.9	39
Fuel	40.3	15	55.3	17
Electricity	23.3	9	25.0	8
Other external services	22.1	8	27.4	8
Other operating expenses	28.2	10	29.8	9
	266.0	100	329.2	100
Movement in ore stockpiles, work in progress and bullion in process attributable to gold production [(a)]	(40.5)		(17.8)	
Total operating cash expenses	225.6		311.4	

(a) Excluding deferred stripping

For the year ended 31 December 2016

	Hard rock mines Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	2016 Total US$ million	2015 Total US$ million
Revenue						
Gold	163.5	46.7	67.1	211.2	488.5	567.6
Silver	1.0	0.3	0.1	0.2	1.5	1.0
	164.5	47.0	67.2	211.4	490.0	568.7
Expenses						
Operating cash expenses	77.9	31.9	41.6	74.2	225.6	311.4
Refinery and transportation	0.2	0.1	0.1	0.3	0.7	1.1
Other taxes	1.9	0.5	1.6	2.2	6.3	7.7
Mining tax	5.2	1.3	1.9	6.3	14.7	33.1
Deferred stripping costs	–	–	–	18.0	18.0	8.4
Depreciation	38.8	6.6	13.6	45.7	104.7	127.2
Impairment of exploration and evaluation assets	–	–	–	9.2	9.2	2.5
Impairment /(reversal of impairment) of ore stockpiles	6.1	1.0	(5.8)	(0.1)	1.2	17.4
Operating expenses	130.2	41.4	53.0	155.7	380.3	508.9
Result of precious metals operations	34.3	5.6	14.2	55.6	109.7	59.8
Add/(less):						
Depreciation	38.8	6.6	13.6	45.7	104.7	127.2
Impairment of exploration and evaluation assets	–	–	–	9.2	9.2	2.5
Impairment/(reversal of impairment) of ore stockpiles	6.1	1.0	(5.8)	(0.1)	1.2	17.4
Segment EBITDA	79.2	13.2	22.0	110.4	224.7	206.9
Physical volume of gold sold, oz	133,605	38,151	54,760	173,342	399,858	481,884
Cash costs						
Operating cash expenses	77.9	31.9	41.6	74.2	225.6	311.4
Refinery and transportation	0.2	0.1	0.1	0.3	0.7	1.1
Other taxes	1.9	0.5	1.6	2.2	6.3	7.7
Mining tax	5.2	1.3	1.9	6.3	14.7	33.1
Deferred stripping costs	–	–	–	18.0	18.0	8.4
Operating cash costs	85.3	33.8	45.2	101.0	265.3	361.8
Deduct: co-product revenue	(1.0)	(0.3)	(0.1)	(0.2)	(1.5)	(1.0)
Total cash costs	84.3	33.5	45.1	100.8	263.7	360.7
Average TCC/oz, US$/oz	631	878	824	581	660	749

All-in sustaining costs and all-in costs

AISC decreased from US$874/oz in 2015 to US$807/oz in 2016, reflecting the reduction in TCC as well as lower sustaining capital expenditure related to the existing mining operations.

AIC decreased from US$932/oz in 2015 to US$838/oz in 2016, reflecting the decrease in AISC explained above, reversal of impairment of refractory ore stockpiles due to a higher gold price and decrease in exploration expenditure.

	Hard rock mines				2016	2015
	Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	Total US$ million	Total US$ million
Physical volume of gold sold, oz	133,605	38,151	54,760	173,342	399,858	481,884
Total cash costs	84.3	33.5	45.1	100.8	263.7	360.7
Average TCC/oz, US$/oz	631	878	824	581	660	749
Impairment /(reversal of impairment) of ore stockpiles	6.3	1.0	(0.0)	(0.1)	7.2	9.2
Adjusted operating costs	90.6	34.5	45.1	100.6	270.9	369.9
Central administration expenses	10.9	3.1	4.5	14.1	32.6	30.4
Capitalised stripping at end of the period	–	–	3.6	22.6	26.2	18.0
Capitalised stripping at beginning of the period	–	–	–	(18.0)	(18.0)	(8.4)
Close down and site restoration	0.1	–	–	0.1	0.2	(1.7)
Sustaining capital expenditure	3.9	0.1	1.7	5.2	10.9	12.7
All-in sustaining costs	105.5	37.7	55.0	124.7	322.8	420.9
All-in sustaining costs, US$/oz	789	988	1,004	719	807	874
Exploration expenditure	8.5	0.1	1.9	6.2	16.6	18.9
Capital expenditure	1.0	–	0.8	–	1.9	1.0
(Reversal of impairment)/impairment of ore stockpiles [(a)]	(0.2)	–	(5.8)	–	(6.0)	8.2
All-in costs	114.8	37.8	51.9	130.8	335.3	449.0
All-in costs, US$/oz	859	990	948	755	838	932

(a) 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 increased by US$2.2 million from US$30.4 million in 2015 to US$32.6 million in 2016.

During 2016, other operations contributed US$(24.6) million to underlying EBITDA vs. US$(34.1) million in 2015. Included in result of corporate and other operations in 2016 is a US$3.6 million share in losses generated by IRC.

Impairment review

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and supporting in house service companies and concluded no impairment was required as at 31 December 2016 , with exception of an individual licence impairment referred to below.

The forecast future cash flows are based on the Group's current mining plan that assumes POX Hub completion in the year 2018. 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 2016	Year ended 31 December 2015
Long term gold price	US$1,200/oz	US$1,150/oz
Discount rate[(a)]	8%	8%
RUB/US$ exchange rate	RUB60.0/US$	RUB65.0/US$

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 10.1% (2015: 10.1%)

Following the decision to suspend exploration at Kharginskoye ore field, an immediate extension of the Albyn deposit, and to surrender the licence, a US$9.2 million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets.

As at 31 December 2016, all exploration and evaluation assets on the balance sheet related to the areas adjacent to the existing mines.

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 2016			Year ended 31 December 2015		
	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	1.0	(0.2)	0.8	(0.9)	0.2	(0.7)
Pioneer	6.1	(1.2)	4.9	11.9	(2.4)	9.6
Malomir	(5.8)	1.2	(4.7)	6.1	(1.2)	4.9
Albyn	(0.1)	–	(0.1)	0.3	(0.1)	0.2
	1.2	(0.2)	0.9	17.4	(3.5)	13.9

Interest income and expense

	2016 US$ million	2015 US$ million
Investment income	0.6	1.0

The Group earned US$0.6 million interest income on its cash deposits with banks.

	2016 US$ million	2015 US$ million
Interest expense	60.8	71.3
Other	0.2	0.2
	61.0	71.5

Interest expense for the period was comprised of US$11.9 million effective interest on the Convertible Bonds and US$48.9 million interest on bank facilities (2015: US$13.6 million and US$57.7 million, respectively). There was no interest expense capitalised as part of mine development costs within property, plant and equipment.

Other finance gains and losses

Other finance gains for the period comprised US$11.9 million compared to US$9.1 million in 2015. Included in other finance gains is financial guarantee fee of US$4.5 million (2015: US$2.2 million) charged in connection with the ICBC facility and US$7.4 million (2015: US$6.4 million) fair value gain on revaluation of the embedded option for the bondholders to convert into the equity of the Company. The Group also recognised US$1.5 million loss on bank debt refinancing.

Taxation

	2016 US$ million	2015 US$ million
Tax (credit)/charge	(4.7)	48.9

The Group is subject to corporation tax under the the UK, Russia and Cyprus tax legislation. The average statutory tax rate for 2016 was 20% in the UK and 20% in Russia.

The tax charge for the period arises primarily in relation to the Group's gold mining operations and is represented by a current tax charge of US$29.8 million in 2016 (2015: US$31.8 million) and a deferred tax credit, which is a non-cash item, of US$34.5 million (2015: deferred tax charge of US$17.1 million). Included in the deferred tax credit in 2016 is a US$26.0 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 Dollar carrying value.

During the period, the Group made corporation tax payments in aggregate of US$35.3 million in Russia (2015: corporation tax payments in aggregate of US$32.9 million in Russia).

Profit/(loss) per share

	2016	2015
Profit/(loss) for the period from continuing operations attributable to equity holders of Petropavlovsk PLC	US$33.7 million	(US$190.2 million)
Weighted average number of Ordinary Shares	3,302,148,536	2,657,332,030
Basic profit/(loss) per ordinary share from continuing operations	US$0.01	(US$0.07)

Basic profit per share for 2016 was US$0.01 compared to US$0.07 basic loss per share for 2015. The key factor affecting the basic profit/(loss) per share was the increase of net profit for the period attributable to equity holders of Petropavlovsk PLC from the net loss of US$190.2 million for 2015 to US$33.7 million net profit for 2016.

The total number of Ordinary Shares in issue as at 31 December 2016 was 3,303,768,532 (31 December 2015: 3,300,561,697).

The Group has a number of potentially dilutive instruments which were anti-dilutive in the 2015 and 2016 and, accordingly, diluted profit/(loss) per share was not different from the basic profit/(loss) per share.

Financial position and cash flows

	31 December 2016 US$ million	31 December 2015 US$ million
Cash and cash equivalents	12.6	28.2
Loans	(522.8)	(552.8)
Convertible bonds [a]	(88.4)	(85.5)
Net Debt	(598.6)	(610.0)

(a) US$100.0 million convertible bonds due on 18 March 2020 at amortised cost.

	2016 US$ million	2015 US$ million
Net cash from operating activities:		
Continuing operations	37.0	111.0
Discontinued operations	–	(7.6)
	37.0	103.4
Net cash used in investing activities:		
Continuing operations	(8.7) [b]	(23.2)
Discontinued operations	–	(43.0)
	(8.7) [b]	(66.2)
Net cash used in financing activities:		
Continuing operations	(46.8)	(110.6)
Discontinued operations	–	74.2
	(46.8)	(36.4)

(b) Including US$29.4 million cash CAPEX and US$19.2 million proceeds from disposal of subsidiaries

Key movements in cash and net debt from continuing operations

	Cash US$ million	Debt US$ million	Net Debt US$ million
As at 1 January 2016	28.2 [a]	(638.3)	(610.0)
Net cash generated by operating activities before working capital changes	189.3		
Increase in working capital	(63.3)		
Income tax paid	(35.3)		
Capital expenditure	(12.8)		
Exploration expenditure	(16.6)		
Amounts repaid under bank loans, net	(27.0)	27.0	
Interest accrued		(60.8)	
Interest paid	(53.7)	53.7	
Transaction costs paid in connection with bank loans	(4.0)	5.5	
Bank debt refinancing		1.5	
Proceeds from disposal of subsidiaries, net of cash disposed and net of liabilities settled	19.2		
Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development	30.8		
Funds transferred under investment agreement with the Russian Ministry of Far East Development	(47.7)		
Foreign exchange	2.8	0.2	
Other	2.7		
As at 31 December 2016	12.6	(611.2)	(598.6)

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

The increase in working capital reflects US$25.8 million increase in trade and other receivables and US$37.7 million reduction in trade and other payables.

As at 31 December 2016, there were no undrawn facilities available to the continuing operations.

Capital expenditure

The Group invested an aggregate of US$29.4 million on its gold projects compared to US$32.6 million invested in 2015. The key areas of focus this year were on fulfilling existing contractual commitments in relation to the POX Hub project, exploration to support the underground mining at Pioneer, 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 [a] US$ million	Total US$ million
POX	–	1.9	1.9
Pokrovskiy and Pioneer [b]	8.6	3.7	12.3
Malomir	1.9	1.6	3.5
Albyn	6.1	4.9	11.0
Upgrade of in house service companies	–	0.6	0.6
	16.6	12.8	29.4

(a) Including US$1.9 million of development expenditure in relation to the POX Hub which is considered to be non-sustaining capital expenditure for the purposes of calculating all-in sustaining costs and all-in costs.

(b) Including US$5.5 million of exploration expenditure in relation to the underground mining project at Pioneer to be non-sustaining capital expenditure for the purposes of calculating the all-in sustaining costs and all-in costs.

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 2016	31 December 2015
GB Pounds Sterling (GBP: US$)	0.81	0.68
Russian Rouble (RUB : US$)	60.66	72.88

The Rouble recovered by 17% against the US Dollar during 2016, from RUB72.88 : US$1 as at 31 December 2015 to RUB60.66 : US$1 as at 31 December 2016. The average year on year depreciation of the Rouble against the US Dollar was approximately 10%, with the average exchange rate for 2016 being RUB67.18 : US$1 compared to RUB61.30 : US$1 for 2015.

As a result of the significant volatility of the Russian Rouble, the Group recognised foreign exchange losses of US$5.2 million in 2016 (2015: US$12 million) arising primarily on Rouble denominated net monetary assets.

Refinancing of the Group's bank debt

In December 2016, the Group refinanced US$430 million outstanding principal of the Group's US$530 million bank debt, including a revised maturity profile and renegotiation of the financial and operational covenants.

Results of the bank debt refinancing are set out below.

	December 2016 US$ million
Carrying value of liabilities de recognised	428.2
Fair value of new liabilities recognised:	
Bank debt	426.7
Call option over the Company's shares	3.0
Loss on bank debt refinancing	(1.5)

Cash settled call option was issued in relation to 3.6 per cent. of the outstanding aggregate ordinary share capital in the Company and is exercisable between December 2019 and March 2023 at strike price of £0.068.

Transaction costs of US$4.9 million were further capitalised.

The Group is currently completing the final documentation to refinance the remaining US$100 million bank debt. Once this has been completed, the Group's entire bank debt of US$530 million has been refinanced.

Disposal of subsidiaries

The Group entered into agreements to sell its wholly owned subsidiary LLC Ilijnskoye and its associate JSC Verkhnetisskaya Ore Mining Company for an aggregate cash consideration of an equivalent to US$20 million, payable in tranches during 2016, out of which US$19.8 million were attributed to the value of Visokoe asset held by LLC Ilijnskoye and the remainder to JSC Verkhnetisskaya Ore Mining Company. The disposal of LLC Ilijnskoye was completed on 11 May 2016. The Group recognised US$0.5 million net loss on this disposal.

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 RUB5.5 billion (an equivalent to c.US$91 million as at 31 December 2016) 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. During 2016, the Group received further RUB2.0 billion (an equivalent to US$30.8 million) under the Investment Agreement and transferred an aggregate RUB3.1 billion (an equivalent to US$47.7 million) to DRSK.

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 prepared regularly based on a number of inputs including, but not limited to, forecast commodity prices and impact of hedging arrangements, the Group's 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 2016 Annual Report and Accounts. As at 31 December 2016, the Group had sufficient liquidity headroom and complied with related financial covenants. Following the successful completion of the bank debt refinancing, the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to May 2018 and expects to comply with related financial covenants. In the meantime, the Group's projections under a reasonable downside scenario indicate that, unless mitigating actions can be taken including accessing deposits not currently in the Group's mining plan, there will be insufficient liquidity and non-compliance with certain financial covenants under a reasonable downside scenario for the relevant period to May 2018. If a missed debt repayment occurs or financial covenant requirements are not met, 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 Directors are confident that, should it be required, relevant mitigating actions could be successfully implemented.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$234 million as at 31 December 2016. 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. IRC has agreed with ICBC to restructure and reschedule two repayment instalments under the ICBC Facility Agreement, which are originally due for payment on 20 June 2017 and 20 December 2017, with next repayment instalment due on 20 June 2018. IRC also obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive).

Having taken into account the aforementioned factors, and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation 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 2016 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

2017 Outlook

The Group is confident to achieve 2017 production guidance of 460koz. The Group's operating cash expenses are substantially Rouble denominated. The Group expects its total average cash costs of production in 2017 to be c.US$700/oz at current exchange rate. Net debt is expected to decrease to c. US$550 million by the end of 2017, assuming an average gold price of US$1,200/oz for the remainder of 2017.

The Strategic Report was approved by the Board on 26 April 2017 and signed on its behalf by:

Peter Hambro
Chairman

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 having 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.

Mr Robert Jenkins
Senior Non-Executive Director

Mr Robert Jenkins was appointed as a Non-Executive Director on 30 April 2015 and as Senior Non-Executive Director on 28 June 2016

Experience: Mr Jenkins is a Chartered Accountant, having qualified with KPMG in the UK, and has over 20 years' 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 in NorthStar Corporate Finance, which specialises in advising companies on Russia related as well as other European acquisition and financing transactions. He was formerly 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 and a member of the Nomination 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 twenty five years of experience in the resources industry. From 2003 to 2012, he was a Marketing Director at BHP Biliton, a leading global resources company and from 2013 to 2015 he was a Non-Executive Director of Torm A/S, a Danish shipping 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 is a Board Observer with Fluidic Analytics Limited, a company that builds tools for protein characterisation.

Committee membership: Mr Green is Chairman of the HSE Committee and a member of the Company's Audit and Remuneration 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 Ph.D 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, an Australian business that has developed technology for processing nickel laterite deposits.

Committee membership: Mr Vickerman is Chairman of the Remuneration Committee and a member of the HSE, Audit and Nomination Committees.

Corporate Governance Report

Chairman's introduction

Dear shareholder

I am pleased to present the Corporate Governance Report for the year ended 31 December 2016, on behalf of the Board.

2016 was a transformative year for Petropavlovsk, having finalised a two year balance sheet restructuring while maintaining its focus on deleveraging. The refinancing of the Group's bank debt, focus on the Group's strategic priorities and the composition of the Board were the principal issues for the Board's focus during the year.

We are committed to good governance throughout the Company. In this introduction, I highlight the depth and diversity of our management team and the steps that we are taking further to strengthen our governance practices.

Board structure
The Board is currently made up of both British and Russian nationals:

- Executive Directors:
  - Dr Pavel Maslovskiy, Chief Executive Officer
  - Andrey Maruta, Chief Financial Officer
- Non-Executive Directors:
  - Robert Jenkins, Alexander Green, and Andrew Vickerman, all of whom are independent.
- Chairman
  - My role as Chairman, principally based in London, includes some clearly defined executive responsibilities that are separated from those of the Chief Executive Officer, who is principally based in Russia.

There is frequent and open dialogue between the executives and the excellent relationship with the Non-Executives ensures that the full Board is kept informed of all strategic and operational issues on a timely basis.

The Board structure is currently compliant with the requirements of the UK Corporate Governance Code. However, the Board believes that its composition could be further strengthened by the appointment of an additional Non-Executive Director. This also aligns with our strategy for continual improvement in our corporate governance practices to ensure that they are robust and where possible in line with best practice, whilst recognising the individual needs of the business.

It is the Board's intention that appointment of any successful candidate is made with the support of our major shareholders and that the new director, while representing the interest of all shareholders equally, will be fully independent.

Management team and diversity
The majority of our strong and broadly based executive team have been with the Company for over 12 years, with several of them having been with the Company since its inception in 1994. This longevity ensures an open and honest dialogue which reflects the Group's collaborative culture. The expertise and wide range of skills of the team gives the Board much comfort, knowing that any issues will be recognised at an early stage and actions taken, with matters being brought to the attention of the full Board as appropriate.

These strengths are acknowledged by the Senior Lenders and the resulting bank refinancing is arranged so as to allow the Company to self fund the completion of the Pressure Oxidation project from free cashflow, provided always that the macro economic environment is as forecast.

Although the mining sector is recognised as a male dominated environment, the Group recognises and encourages the development of women in the workplace and this is reflected in the high number of professional women in senior positions throughout the Group.

For example there are several very skilled and experienced women in our Executive team. In November 2016, I was pleased to announce the promotion of Dr Alya Samokhvalova to Deputy CEO, Strategic Development and the appointment of Alexandra Carse to replace her as Head of Investor Relations. Anna-Karolina Subczynska, a fully qualified lawyer in both the UK and Russia is our Group Head of Legal Affairs and has been with the Company for over 13 years whilst Anna Makhina is our Head of Legal in Russia. Both Alya and Anna-Karolina attend Board meetings at my request and contribute to the Board's discussions. Amanda Whalley, the Company Secretary has been with the Company for 6 years.

Within our finance team Natalia Buynova, Group Head of Corporate Reporting has been with the Company since 2009, having originally joined on secondment from PwC. Natalia regularly attends Audit Committee meetings and presents to the Committee. Zhanna Kirienko, the Group's H&S Co-ordinator, based in Blagoveshchensk, attends HSE Committee meetings to update the Committee on actions being taken to improve health and safety throughout the Group and to report on any accidents. Zhanna's promotion to this position followed her successful completion of an MBA in London which was sponsored by the Group.

These are just a few examples of the professional women who work within the Group and reflect and demonstrate our diversity and our commitment to the development of our employees.

Further details of the Executive Committee are provided on pages 34 and 77.

Board effectiveness review
Although not a requirement for the Company under the UK Corporate Governance Code, the assessment of the Petropavlovsk Board was facilitated externally. Further details of this review, which has recently been concluded, are provided on page 76.

Annual General Meeting
The Annual General Meeting (AGM) is recognised as an opportunity for all shareholders to engage with the Board and I look forward to welcoming them to the AGM to be held on 20 June 2017.

Governance at Petropavlovsk is an important element of our Board environment and the following report sets out the details of the Company's approach to corporate governance.

Peter Hambro
Chairman
26 April 2017

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 UK Corporate Governance Code, the UK Listing Rules and the Disclosure Guidance & Transparency Rules, all of which the Company is subject to.

Application of the UK Corporate Governance Code
The UK Corporate Governance Code (the 'Code') can be viewed on the website of the Financial Reporting Council at www.frc.org.uk.

The Code sets out key corporate governance recommendations for companies, like Petropavlovsk, that have a premium listing of their equity shares on the main market of the London Stock Exchange. It consists of broad principles and specific provisions of good governance in the following areas: leadership, effectiveness, accountability, relations with shareholders and remuneration.

This corporate governance report is arranged around these main principles and together with the Audit Committee Report (on pages 80 to 86), the Directors' Remuneration Report (on pages 87 to 103) and the Nomination Committee Report (on page 79) sets out how the Company has applied the main principles of the Code during 2016.

The Company has complied with the requirements of the Code published in September 2014 throughout the year ended 31 December 2016. However the following should be noted:

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.

Mr Robert Jenkins provided advice to the Company, principally to the Audit Committee and Non-Executive Directors, during the refinancing of the Group's 4 per cent Convertible Bonds due 2015 which completed in March 2015 and prior to his appointment as a Director. 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 2016.

Role of the board	
Membership: **Mr Peter Hambro** **Dr Pavel Maslovskiy** **Mr Andrey Maruta** **Mr Robert Jenkins** **Mr Alexander Green** **Mr Andrew Vickerman** Further information: – The Group's near term, medium term and long term strategy, set by the Board, are fully described in the Strategic Report on the inside front cover. – Directors' Biographies are on pages 70 to 71.	The Board is responsible to shareholders for the long term sustainable success of the Company. 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 at www.petropavlovsk.net. These matters include responsibility for the determination and monitoring of the Company's strategic aims, budgets, major items of capital expenditure and senior appointments.
Code compliant: *The Board comprises three Independent Non-Executive Directors*	
Board changes during the year	On 28 June 2016, Sir Roderic Lyne stepped down as a Non-Executive Director, after over nine years of valuable service with the Company, including his service as a director of Aricom plc, from October 2006 to April 2009. Mr Robert Jenkins, a director since April 2015, replaced Sir Roderic in his role as Senior Independent Director.
Board composition and roles	
Chairman: **Mr Peter Hambro**	The Chairman provides the leadership to and direction of the Board. This is 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 decisions making processes.
Chief Executive Officer: **Dr Pavel Masvlovskiy**	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.
Code Compliant: *The Chairman and Chief Executive Officer have clearly defined and separated responsibilities.*	
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 Chief Financial Officer.
Senior Non-Executive Director: **Mr Robert Jenkins**	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.
Non-Executive Directors: **Mr Robert Jenkins** **Mr Alexander Green** **Mr Andrew Vickerman**	The Non-Executive Directors are responsible for bringing independent and objective analysis 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.
Code compliant: *Senior Independent Non-Executive Director* *The Non-Executive Directors meet periodically with the Chairman without the Executives being present.* *The Non-Executive Directors hold meetings without the Chairman or Executive Directors being present.*	

Effectiveness and Accountability of the Board

The Directors Business Experience, Independence and Country of Permanent Residence

The adjacent graphs 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 as being critical to the Board's ability to lead the Company.

Board activities during the year

In 2016, the Board met on five scheduled occasions, with 17 additional meetings held during the year, principally due to the bank refinancing, strategic issues 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:

- Consideration and approval of the refinancing of the Group's bank debt with its lending banks Sberbank and VTB (the 'Senior Lenders'), as announced in December 2016
- Evaluating and approving the proposed acquisition of Amur Zoloto LLC, which as announced on 16 December 2016 is no longer proceeding
- Reviewing the proposed joint venture for the completion of the POX Hub with GMD Gold. Following agreement with the Senior Lenders the Group is completing the POX Hub from its free cashflow depending on the gold price
- Reviewing the progress of the Group's underground mining project
- Monitoring the progress of the construction of IRC's K&S Facility and IRC's negotiations with ICBC regarding the deferral of its two scheduled principal repayments due in 2017 under the ICBC Project Finance Facility
- Composition of the Board in relation to a new Non-Executive Director appointment
- Approval of a new share dealing policy and disclosure manual to ensure compliance with the Market Abuse Regulations.

During the year and at the request of some of the Company's major shareholders the Board constituted an independent committee of the Board comprising Andrew Vickerman as Chairman, Robert Jenkins and Alexander Green to review the proposed acquisition of Amur Zoloto LLC. The Independent Committee appointed an external financial adviser to review the terms of the proposed acquisition and to advise on whether they considered these to be 'fair and reasonable.' The Independent Committee met on a number of occasions to consider this matter.

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 77 to 78 for further details of these Committees.

Directors' induction and professional development, information flow and professional advice

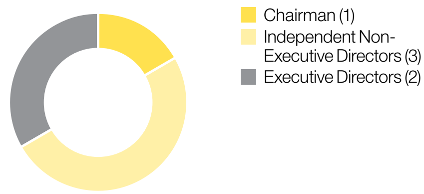
Induction and Professional Development

Each Director is provided with an induction programme upon appointment and they are expected to update their skills and knowledge, and develop the familiarity with the Group's operations needed to fulfil their role on both the Board and any Committees.

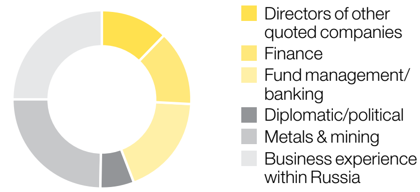
The Board considers that visits to the Group's gold mining operations are an important part of a Director's induction and their understanding of the size and scale of the Group's operations. Mr Jenkins visited the Group's operations in the Far East Amur Region in October 2015, as part of his induction. This included a visit to the Group's laboratories, the POX Hub and the pilot POX plant in Blagoveshchensk. Messrs Green and Vickerman who were appointed to the Board during the latter part of 2015 have not yet visited the mines. However, a Board visit to the Group's mining operations is proposed for all of the Directors later in this year.

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

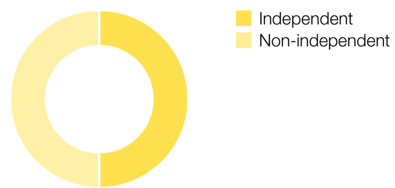
Board balance of Directors



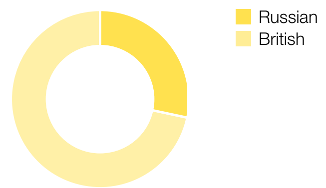
Business experience



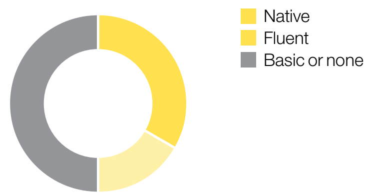
Independence



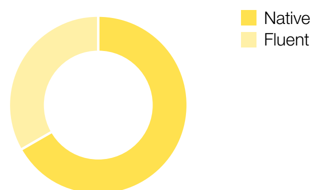
Nationality



Language skills – Russian



Language skills – English



The Non-Executive Directors may attend conferences and seminars on the mining industry at the Company's expense to enhance and update their knowledge. The Directors receive briefings on regulatory and corporate governance issues from the Company Secretary and the Company's advisers.

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 management. 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 and request further information as they feel appropriate, of the Executive Directors or management. All Directors are encouraged to participate actively in Board meetings which are chaired in an open and collaborative manner.

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 during the year
We delivered on our communication strategy in 2016 by:

– Maintaining an active dialogue with our shareholders, with members of the Executive team meeting with approximately 40 individual investor companies during the year
– The Executive team attending investor conferences in the UK, Europe and USA, including London, Moscow and New York
– Arranging conference calls for investors and analysts following the Company's full year and half year results announcements
– Ensuring copies of all investor presentations are made available on the Company's website at www.petropavlovsk.net
– Organising meetings of the Independent Non-Executive Directors with several of the Company's major shareholders during the year.

The Senior Independent Director is also available to discuss matters with the Company's shareholders.

In addition a new Company website, launched in March 2017, was designed to strengthen our communication with our stakeholders. The website provides the latest news, details about forthcoming events for shareholders and analysts, and other information regarding the Group.

The Company aims to maintain an active and constructive 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.

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.

The AGM
Individual shareholders are equally as important to the Company as are its institutional shareholders and the Board encourages as many shareholders as possible to attend the Company's Annual General Meeting during which shareholders are given the opportunity to discuss matters with the Board. All resolutions at the 2016 AGM were voted by way of a poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Code, all resolutions were voted separately and the final voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were released to the London Stock Exchange as soon as practicable after the meeting.

The respective chairs of the Audit, Remuneration and 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.

Board evaluation outcome
A Board evaluation was undertaken in early 2017 which was conducted by an external facilitator. This external consultant have no other connection with the Company. This review entailed a rigorous evaluation of the Board, its Committees and individual members, thus providing the Chairman with an objective means of assessing their performance. The evaluation involved online questionnaires, Board director interviews, interviews with certain members of the Executive Committee, a Board effectiveness report and improvement recommendations.

The Board evaluation has now been completed and the Board will be considering the findings in due course and will agree such actions as it considers necessary. Further detail will be included in the 2017 Annual Report.

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 20 June 2017. The re election of each of the eligible Directors has been reviewed by the Nomination Committee and the Board who are satisfied that each of the Directors continues to be effective and demonstrates commitment to the role. The Board recommends that shareholders vote in favour of the resolutions to re elect all of the eligible Directors of the Company and the reasons for this recommendation will be set out in the accompanying letter to the Notice of the Annual General Meeting.

The Board is satisfied that each of the Directors continues to be effective and demonstrates commitment to the role; and that re appointment is in the Company's best interest.

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 77.

The Board and its Committees (Membership as at 31 December 2016)

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

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.

Membership

Robert Jenkins (Chair)

Alexander Green

Andrew Vickerman

The Report of the Audit Committee is on pages 80 to 86 of this Report.

Remuneration Committee

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

Membership

Andrew Vickerman (Chair)

Alexander Green

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

Nomination Committee

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

Membership

Peter Hambro (Chair)

Robert Jenkins

Andrew Vickerman

The Report of the Nomination Committee is on page 79 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 HSE risks
- Assesses the performance of the Group with regard to the impact of Sustainability decisions and actions.

Membership

Alexander Green (Chair)

Dr Pavel Maslovskiy

Dr Alya Samokhvalova

Dmitry Chekashkin (Alternate for Dr Maslovskiy)

Please see pages 34 to 35.

Executive Committee

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

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, Deputy CEO Strategic Development

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 Executive Committee as at 31 December 2016:
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, Deputy CEO Strategic Development
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	
Peter Hambro	C	5/5	–	4	–	2/2	C	2/2	–	5
Pavel Maslovskiy	M	5/5	–	2	–	–	–	–	–	4/5
Alexander Green[4,5]	M	5/5	M	3/4	M	2/2	–	–	MC	5/5
Robert Jenkins[3,4]	M	5/5	MC	4/4	–	–	M	2/2	M	2
Sir Roderic Lyne[3,4,5]	M	3/3	M	–	C	1/1	M	1/1	C	3/3
Andrey Maruta	M	5/5	–	4	–	–	–	–	–	1
Andrew Vickerman[5]	M	5/5	M	4/4	MC	2/2	–	2/2	M	5/5

Key: C= Chairman, M= Member

1 *Scheduled Board meetings only. Additional Board meetings were held during the year, principally relating to strategic matters including the proposed acquisition of Amur Zoloto LLC and the proposed joint venture arrangement with GMD Gold for the construction of the POX Hub, the refinancing and matters relating to IRC.*

2 *Directors who are not members of the Audit, Remuneration and HSE Committees may attend meetings at the invitation of the Chairman of that Committee.*

3 *Sir Roderic Lyne retired as a Director of the Company following the conclusion of the Company's annual general meeting on 28 June 2016. Mr Robert Jenkins was appointed as Senior Independent Director upon Sir Roderic's retirement.*

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

5 *Sir Roderic Lyne was Chairman of the Remuneration Committee and the HSE Committee until 28 June 2016, when he retired as a Director of the Company, at which time Mr Andrew Vickerman and Mr Alexander Green were appointed as Chair of the Remuneration Committee and the HSE Committee respectively.*

Nomination Committee Report

Letter from the Nomination Committee Chairman

Dear shareholder

I am pleased to present this report on behalf of the Nomination Committee.

Membership of the Committee
I continue to chair the Committee assisted by Mr Robert Jenkins and Mr Andrew Vickerman. Mr Vickerman was appointed to the Committee on 28 June 2016 following the retirement of Sir Roderic Lyne as a Director and as a member of the Committee. The Committee met on two formal occasions during the year, with regular contact between meetings.

As detailed in my Chairman's statement I will retire as Nomination Committee Chairman and as a member of the Committee. Mr Alexander Green, independent Non-Executive Director will be appointed to the Committee.

Board appointment process
During the year the Committee led the process to identify a suitable candidate to replace Sir Roderic. This involved the appointment of external consultants and discussions with some of the Company's major shareholders, including at a meeting, to consider what level of skills and experience the replacement candidate should have. The meeting also considered whether it would be appropriate to appoint further additional directors given the stage of the Company's development.

Following these discussions names of potential candidates for inclusion in the appointment process were provided by some of the major shareholders. The external consultants, who have no other connection with the Company, progressed the selection process based on the detailed brief provided by the Committee which specified the skills and experience required having taken into account comments expressed by our major shareholders. A long list of names was then proposed to the Committee and a number of candidates were interviewed during the year by all members of the Nomination Committee with a number also meeting with the Chief Executive Officer and the Chief Financial Officer.

Although suitable candidates were identified, the Company has not yet been successful in appointing Sir Roderic's replacement for a number of reasons, for example due to conflict of interest reasons with the principal employer of a preferred candidate.

Whilst recognising that, with three independent Non-Executive Directors, the composition of the Board is fully compliant with the UK Corporate Governance Code, the Nomination Committee and the Board are somewhat disappointed that we have not yet found a suitable replacement for Sir Roderic. We continue to manage the process such that an appointment can be made as soon as possible whilst endeavouring to ensure that the chosen candidate will fully complement the Board.

Diversity statement
During our current search to date we have met with and considered a number of highly skilled and experienced woman for the above position. Indeed one of our preferred candidates was a woman. However the Committee's principal goal during our current search for a new Non-Executive Director, is to appoint a candidate 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 this next exciting stage of its strategy. The Committee believes that this is in the best interest of the Company and its shareholders. Consequently the Board has 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.

The Company values diversity and we have several very skilled and experienced women in our executive team, including Dr Alya Samokhvalova who was promoted to the position of Deputy CEO Strategic Development in December 2016. Further detail of our management team and its diversity are provided in the Corporate Governance Report on page 72 of this Annual Report.

Succession planning
The Committee notes the focus of shareholders and the Financial Reporting Council on a company's succession plans and the role that the Nomination Committee is expected to fulfil in this regard. The Committee has dicussed this matter to some extent during 2016 particularly with respect to the Executive Directors and it is intended that this will have a higher profile on the agenda during 2017. We look forward to reporting to shareholders in more detail on this matter in the 2017 Annual Report.

Effectiveness of the Committee
As detailed on page 76 of this Annual Report, the Board has recently undertaken an evaluation of its effectiveness and that of its Committees facilitated by external consultants. The Committee was found to be acting effectively and in accordance with its terms of reference.

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
26 April 2017

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 2015 Nomination Committee Report.

The terms of reference of the Nomination Committee are available on the Company's website at www.petropavlovsk.net

Letter from the Audit Committee Chairman

Dear shareholder

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

The challenging environment continued throughout 2016, with further volatility in the gold price and exceptionally adverse weather conditions in the latter part of the year resulting in lower 2016 production than had originally been guided.

In addition the uncertainty regarding both the refinancing of the Group's bank debt and IRC's ability to reschedule its debt under the ICBC project finance facility resulted in an 'emphasis of matter' relating to going concern in the Company's 2016 Half Year accounts.

However, the Group commenced 2017 in a stronger financial position, given the successful refinancing of the Group's bank debt with its lenders, Sberbank and VTB (the 'Bank Debt Refinancing'). The extension of the maturity profile allows the Company to focus on its strategic goals and objectives. In addition IRC has made significant progress by i) securing a new investor who has injected US$26 million of new equity, ii) moving towards full production at its K&S iron ore processing facility and iii) obtaining waivers from ICBC for the two scheduled repayments due in 2017 under the IRC project finance facility. The 2017 debt repayment deferral obtained by IRC has reduced the risk to Petropavlovsk as guarantor to IRC's debt. We consider this to be a significant reduction in our risk profile.

These matters, which were the focus of considerable and regular review by the Committee during the year, are discussed in this report.

Committee membership
There has been no change in the Committee membership throughout the year which remains a fully independent body, comprising only of independent Non-Executive Directors. I have continued as Chair, assisted by Alexander Green and Andrew Vickerman. My colleagues and I continue to meet regularly with Timothy Biggs, from Deloitte LLP lead audit partner of Petropavlovsk. In addition, I accompanied the external audit team on their visit to our mining operations which was also attended by Venmyn Deloitte ("Venmyn"), technical mining experts, who review operational factors and contribute to the overall audit process. During my visits to the mines I have had the opportunity to hold discussions with local management, including the Group's top geologists, to understand better our processes and operations. This has also given me a more detailed understanding of the issues regarding gold in circuit, which are explained later in this Report on page 84.

The Committee continues to engage constructively with the Executive management team, and the external auditor particularly with regards to the significant matters that were considered by the Committee, as detailed on pages 83 to 84.

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. To develop my understanding I met separately with the Group Head of Internal Audit, who directly reports to the Committee, in both Moscow and London, to discuss the outcome of internal audit reviews and to develop the scope of internal audit to provide further assurance to the Committee on the effectiveness of the Group's controls.

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. In addition the Committee has again advised the Board on the viability statement required under the UK Corporate Governance Code.

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
26 April 2017

Committee membership as at 26 April 2017 and during 2016:

Mr Robert Jenkins

Mr Alexander Green

Mr Andrew Vickerman

Governance
Mr Jenkins was appointed as Audit Committee Chairman on 30 April 2015, and 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 Finance Director and Chief Financial Officer of two Russia focussed natural resource companies, including a UK AIM listed mining exploration company. Mr Jenkins was also the Senior Independent Director and Audit Committee Chairman of Ruspetro plc, an independent oil and gas production company, until its' delisting from the London Stock Exchange in June 2016.

Messrs Vickerman and Green also have relevant experience within the mining sector. Mr Vickerman having spent almost 20 years with Rio Tinto, one of the world's leading mining companies, the last ten as a member of the Operations and Executive Committee with responsibility for global communications and external relations. From 2003 to 2012, Mr Green was a Marketing Director at BHP Billiton, a leading resources company. The Board therefore considers that the Committee as a whole has competence relevant to the sector in which it operates.

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 2016. 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. Under independence requirements, he is required to rotate as lead audit partner following the audit for the year ending 31 December 2018.

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 Company's website. The Committee is responsible for:

- The integrity of the Company's financial statements and the significant reporting judgements contained in them
- The appropriateness of the Company'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 auditor
- 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
During the year, amongst other matters, the Committee:

Financial statements and reports
- Reviewed the 2015 Annual Report and Accounts and the six months' Half Year report ended 30 June 2016 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 2015 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and reported to the Board on its conclusion.

Bank Debt Refinancing
- Closely monitored the Group's financial position and its compliance with its financial covenants and monitored and reviewed the proposed terms of the Bank Debt Refinancing and negotiation thereof.

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 28 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 2016, which included audits to be performed at the Group's mining operations and the Group's offices in both Moscow and Blagoveshchensk. During the year the Group Head of Internal Audit presented his findings to the Committee from various assignments internal audit had been requested to undertake by the Committee. The presentation included details of issues identified and subsequent actions taken. For example the audit of fuel usage and storage and procedures resulted in improved management controls over fuel inventory, in particular through daily cut off reconciliations.
- Audits undertaken during the year, amongst others, were:
  - Ongoing monitoring of working capital
  - Group's warehouse storage facilities
  - Procurement, storage, use and accounting of spares and tyres
- Reviewed and approved the 2017 audit plan which will include an audit of the supply chain management and the testing of the effectiveness of internal controls over purchasing.
- 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
- Agreed the terms of engagement for the audit of the 2016 financial statements.

Governance

- Evaluated the performance of the Committee
- Evaluated the independence and objectivity of the external auditor

To date in 2017 the Committee has reviewed, amongst others, the following matters in relation to the 2016 financial statements:

- The going concern assumption
- The carrying value of the Group's mining assets including the POX Hub
- The carrying value of the Group's evaluation and exploration assets
- The recoverability of gold in circuit inventory
- Accounting for the refinancing

The Committee has also advised the Board on:

- Whether the 2016 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 110
- The viability statement of the Company required in accordance with provision C.2.2 of the Code.

Significant issues considered by the Committee during 2016

The going concern assumption

The key judgement for the Committee during 2016 related to the appropriateness of this basis of accounting. During the year the Group's assessment was highly sensitive to:

- negotiations with its principal lenders, VTB and Sberbank, to obtain satisfactory modifications and temporary waivers regarding the existing covenants and the repayment schedule (the 'Bank Debt Refinancing'); and
- uncertainties in relation to IRC and its ability to have sufficient liquidity to facilitate a debt repayment of US$21.5 million in December 2016 or to renegotiate the terms of the ICBC project finance facility.

Committee action

Given the importance of the Bank Debt Refinancing and IRC's financial position the Committee continually monitored these matters and considered the appropriateness of the going concern assumption by receiving regular updates from:

- the Executive Directors on the status of negotiations with the principal lenders; and
- IRC's Executive Directors on the status of negotiations with ICBC and the commissioning of K&S.

Conclusion

When reviewing the half yearly financial statements for the six months' ended 30 June 2016, the Committee considered the status of the Bank Debt Refinancing and the progress of IRC and noted that whilst there could be no guarantee that the Bank Debt Refinancing and IRC's discussions would be successful the Directors had a reasonable expectation that they would be and therefore the going concern basis of accounting remained appropriate.

In December 2016, the Company refinanced US$430 million of its bank debt with Sberbank and VTB.

Significant issues considered by the Committee in the context of the 2016 financial statements:

The Committee identified the issues below as significant in the context of the 2016 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
(see note 2.1 to the financial statements)
 	
The key judgement for the Committee for the 2016 financial statements related to the appropriateness of the basis of accounting.
 	
The Directors perform an assessment of the Company's ability to continue as a going concern at the end of each reporting period. The period of the assessment covers at least twelve months from the date of signing of the financial statements. As the Company has guaranteed the outstanding amounts that IRC owes to ICBC under the Project Finance Facility (US$234 million as at 31 December 2016), the assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is a key element of the Group's overall going concern assessment.
 	
Following the successful completion of the Bank Debt Refinancing, the Group is satisfied that it has sufficient headroom under a base case scenario for the period to May 2018 and expects to comply with related financial covenants. However, the Group's projections under a reasonable downside scenario for the period to May 2018 indicate that, unless mitigating actions can be taken including accessing deposits not currently in the Group mining plan, there will be insufficient liquidity and non-compliance with certain financial covenants. In the event that a debt repayment is missed or financial covenant requirements are not met, this would result in events of default which, through cross defaults and cross accelerations, could cause all other of the Group's debt arrangements to become repayable on demand.
 	
In addition to the twelve month going concern consideration the Directors assessed the Company's prospects over the longer term, specifically addressing a period of three years as part of the overall viability statement. The viability statement can be found in the Directors' Report on page 109.
	The Committee has addressed this matter through:
	
	– Reviewing a paper from management on the going concern assessment, challenging the key assumptions used for both the base case and the reasonable downside scenarios, in particular in relation to production, gold price and the Russian Rouble US Dollar exchange rate.
	– Considering the mitigating actions proposed by management in the event of a reasonable downside scenario. This included a report from the Group Chief Executive, based on recent detailed exploration results, on the likelihood of the Group being able to access identified deposits which are not currently in the Group's mining plan.
	– With regards to IRC noting that:
	  – two repayment instalments, originally due for payment on 20 June 2017 and 20 December 2017 by IRC under the Project Finance Facility in an aggregate amount of US$42.5 million have been rescheduled evenly into five subsequent semi annual repayment instalments from 20 June 2018 to 20 June 2020 inclusive. The next principal repayment under the Project Finance Facility is therefore due on 20 June 2018.
	  – ICBC has agreed to grant a waiver of the financial covenants in the Project Finance Facility until 31 December 2017.
	  – IRC's accounts for the year ended 31 December 2016 as audited by Deloitte Hong Kong are unqualified.
	  – In December 2016 IRC completed a US$25 million equity fund raising from a new core investor.
	  – The development of K&S is advanced with full scale commercial production anticipated in H2 2017.
	  – The iron ore price increased significantly during 2016 and the beginning of 2017.
		Following careful review the Committee has a reasonable expectation, after taking into account the above mentioned factors, that the Group will have sufficient working capital liquidity to continue in operational existence for the foreseeable future and accordingly, the going concern basis is the appropriate basis of preparation for the 2016 financial statements. The Committee has advised the Board accordingly.

Issue	Committee action	Conclusion
Carrying value of mining assets (see note 12 to the financial statements) The carrying value of the Group's mining assets which includes the tangible assets attributable to the gold mining projects and the supporting in house service companies remains particularly sensitive to the forecast long term gold price, the Russian Rouble US Dollar exchange rate, and the forecast future cash flows for Pioneer and Malomir which assume the POX Hub's completion. Consequently, the assessment of the carrying value of the Group's mining assets and whether an impairment or reversal of impairment is necessary requires significant judgement.	The Committee has addressed this issue through: – Receiving reports from management outlining the basis for the assumptions used, including assumptions on gold price, the discount rate used for the gold mining 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, are approved by the Board and, are used by management to perform the impairment assessment. – Reviewing the status of the construction of the POX Hub. – Reviewing the report prepared by Venmyn, mining experts, engaged by Deloitte to assist them in their assessment of this issue. As part of their review Venmyn again visited the Group's principal mines. – 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. The Committee agreed with the conclusion of management that no impairment or reversal of the impairment recognised in 2013 was required. No impairments or reversals of impairments have been recognised at 31 December 2016.
The recoverability of gold in circuit inventory Inventory is required to be carried at the lower of its cost and net realisable value. The measurement and valuation of gold in circuit included in inventory is complex and there is a risk that the total value of gold in circuit held on the balance sheet at 31 December 2016 is not fully recoverable. (Gold in circuit volume: 2016:91koz, 2015:75koz; monetary value: 2016: US$71 million: 2015: US$50 million).	The Committee has addressed this issue through: – Enquiring of management the process used for extracting gold from the resin used in processing plants at Pioneer, Pokrovka and Albyn which led to an increase of gold in circuit volumes and understanding the countermeasures taken by management during the year to treat the resin and reduce gold in circuit levels. – Reviewing a paper from the Chief Operating Officer detailing the technical reasons for this matter and the steps and actions taken by management to recover the gold including the recent commissioning of an acid alkali treatment installation for resin at Pokrovskiy mine. – Discussing with the external auditor the work undertaken by: i) Venmyn on their assessment of the reasonableness of the Group's gold in circuit levels ii) Deloitte CIS, who attended stock counts at key operating locations and reconciled the gold in circuit levels to the production and sales data and iii) discussing with management the monitoring process for tailings in respect of any loss of gold. In addition the Committee noted the work performed by Venmyn which confirmed that the loss of gold in circuit to the tailings dams in immaterial. – A meeting by the Audit Committee Chairman with Venmyn.	Taking these matters into account the Committee is satisfied with the thoroughness of the approach and judgements taken. Consequently the Committee concurs with management's conclusion that the gold in circuit balance is recoverable.

External auditor
Deloitte was appointed as auditor to the Company in 2009 following the Company's listing on the main market.

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 2015, 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 2016 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 2016 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 2016. 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 which enhances Deloitte's ability to perform as external auditor and the proven stability that is gained from their continued engagement
- In addition Committee members completed questionnaires to individually assess the performance of Deloitte the results of which were discussed at the March 2017 Committee meeting.

As a result of the above actions, the Committee determined that Deloitte remains effective in its 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 2017 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, however this will be kept under review. 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
The majority of non-audit fees paid to Deloitte were in respect of their work as reporting accountants on the proposed acquisition of Amur Zoloto LLC and the proposed joint venture with GMD Gold. As explained in this Annual Report neither transaction is proceeding. Deloitte's appointment as reporting accountant on both of these transactions was in accordance with the Company's policy on the provision of audit and non-audit services, a copy of which can be located on the Company's website or obtained from the Company Secretary. The Committee approved the appointment on the basis that it was in accordance with the Company's policy and that Deloitte would be the most appropriate firm to prepare the requisite working capital report within the time available and for a reasonable fee given their detailed knowledge of the Group, including IRC, of whom Deloitte Hong Kong is the external auditor. This work is typically performed by a company's external auditor. In addition the non-audit services were provided by a separate team from the audit engagement team. Deloitte has confirmed to the Committee that there are no inconsistencies between APB Ethical Standards for Auditors and the Company's policy for the supply of non-audit services or that there has been any apparent breach of the Company's policy. Accordingly, in the opinion of the Committee, the independence and objectivity of Deloitte as external auditor to the Company, has not been impaired by their work in this respect.

A breakdown of audit and non-audit fees paid in 2016 is set out in note 7 on page 139 of this Annual 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. The Committee reviews the Company's financial and other internal controls. In addition, as part of the Board's review of the effectiveness of the Group's system of internal control the Committee is working with internal audit to broaden its remit and expand its focus on key risks and controls. 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. The Board considers the internal controls of the Group to have operated effectively throughout 2016 and up to the date of this report
- For IRC, Petropavlovsk operates controls over the inclusion of its financial data but places reliance upon the systems of internal control operating within IRC and the obligations upon IRC's Board relating to the effectiveness of its own systems. IRC ceased to be a subsidiary of the Company and became an associate on 7 August 2015.

Some key features of the internal control 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
- The Group has a detailed procurement policy and a centralised procurement function based in Moscow. The cost of the centralised purchases is c.75% of the Group's total purchases with lower value orders dealt with locally in Blagoveshchensk. This system provides strengthening purchasing power and ensures strong controls are in place. There is appropriate segregation of duties throughout the Group, in particular separating the purchasing and ordering function from the processing and payments function. In addition there is a documentation and tracking process for purchase items for control purposes including to prevent theft
- There is a special procurement process with a separate budget and expenditure schedule for the construction of the POX Hub. This is monitored with expenditure approved by the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer based on the approved budget
- There is 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. The 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, summaries the risk management framework together with details of the principal risks of the Group and is on pages 21 to 33 of this Annual Report.

Overview
As a result of the Committee's work during the year, the Committee has concluded that it has acted in accordance with its terms of reference.

Annual statement from the Chairman of the Remuneration Committee (the "Committee")

The Committee continued to align the implementation of its policy with the Group's focus on financial discipline and its strategic objectives to (i) develop the underground mining operations and (ii) complete the construction of the Pressure Oxidation Hub, both of which are critical to the future success of the Company.

Remuneration highlights:

- No salary increases were awarded to the Chairman or the Executive Directors for the year commencing 1 January 2016
- Salary increase of c.1.3% awarded to the Chief Financial Officer for the year commencing 1 January 2017 with no salary increase proposed for the Chairman or Chief Executive Officer
- Non-Executive Directors' fees unchanged for 2017
- Performance against targets for 2016, particularly relating to the satisfaction of specific strategic objectives, resulted in a bonus payable of 20% of salary; 50% of the bonus will be awarded in the form of a Deferred Bonus Award, and 50% will be paid in cash
- No awards were granted under the Long term Incentive Plan ('LTIP') during 2016. The Committee currently proposes to grant awards following the publication of the Company's 2017 interim results, and intends to consult with major shareholders on the proposed performance conditions
- Best practice changes proposed to the Company's Remuneration Policy:
  - Introduction of two year post-vesting holding period for LTIP awards from 2017 onwards
  - Strengthening of malus and clawback provisions
  - Reduction of bonus payable for achieving target from 60% to 50% of maximum.

Dear shareholder

Introduction

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2016.

This report is divided into three parts: the Annual Statement, the Remuneration Policy and the Annual Report on Remuneration. This year we will be asking our shareholders to approve a new Remuneration Policy for Executive Directors at the Annual General Meeting ('AGM'). The background to, and the reasons for, the proposed changes are set out below.

Review of Remuneration policy

Our current Policy was approved by shareholders at the 2014 AGM, receiving over 98.5% support, and will expire at the 2017 AGM. Therefore the Committee has conducted a review of the current Policy to ensure that it continues to meet our aims, which are principally to retain and motivate high calibre executives and to attract new talent as required, with pay outcomes linked to performance against our strategic objectives.

In particular, the Committee wishes to ensure that the Policy supports the Group's strategic goals of progressing the underground mining project, and completing the construction of the pressure oxidation hub which will unlock the value embedded within the Group's 4Moz reserve of refractory ore base from 2018/19, resulting in the deleveraging of the Company. To meet these strategic goals, the Company needs to retain its highly skilled and experienced Executive team.

During our review we have been mindful of developments in investor sentiment on remuneration best practice since the current Policy was approved and, to the extent that they have not already been adopted, we are seeking to include such changes in our revised Policy as we consider appropriate.

In concluding its review, the Committee considers that on the whole the current Policy is fit for purpose, well aligned with strategy, and reflects the market capitalisation of the Company whilst acknowledging the complexity of the Group. The proposed 2017 Policy therefore remains broadly unchanged from the 2014 Policy, except for a number of minor amendments to reflect evolving best practice changes, as follows:

- Introduction of a two year post-vesting holding period for awards made under the LTIP from 2017 onwards, to further strengthen the alignment between the Executive team and shareholders
- Strengthening of malus and clawback provisions to provide appropriate safeguards for shareholders
- Reduction of the bonus payable for achieving target from 60% to 50% of maximum.

The Committee is satisfied that the revised Remuneration Policy will provide a structure that is aligned with the Group's strategic objectives without encouraging undue risk taking, and incentive opportunities that are fair.

Remuneration decisions in 2016

Annual bonus

For 2016, the annual bonus performance conditions were strongly linked to the Group's strategic objectives and its continued focus on financial discipline. 60% of the bonus was linked to the achievement of strategic objectives including in relation to the progress of the underground mining project and the construction of the POX Hub, the success of these projects being critical to the future of the Group. 10% related to each of production and reduction in both net debt and average total cash costs. Given the inherent health and safety risks within our business, 10% of the bonus was based on a Lost Time Injury Frequency rate target, and additionally a health and safety underpin applied to bonus payout.

Based on the significant progress made on the underground mining project and on the construction of the POX Hub, the Committee has awarded an annual bonus of 20% of salary for the Executive Directors and members of the Executive Committee. In determining the bonus, the Committee has also taken into consideration the health and safety performance of the Group during the year. Further information is provided on page 19 of this Annual Report.

After consultation with the Chairman, the Committee has determined that 50% (as opposed to the 25% as outlined in the 2015 report) of the bonus payable will be awarded in the form of a Deferred Bonus Award, vesting after one year. This conserves the Group's cash whilst acting as a retention tool, and further aligns the interests of the Executive team with those of our shareholders.

Other decisions

The Committee did not award any salary increases to the Executive Directors in 2016. For 2017, the Committee awarded an increase of 1.3% to the Chief Financial Officer; no increases were awarded to the Chairman or the Chief Executive Officer.

Implementation of the Remuneration Policy in 2017

In 2016, whilst recognising the significant achievements of the Executive team during the year, including the successful refinancing of the Group's bank debt, the Committee noted the challenging external environment and the continuing need for financial stringency when making its decisions.

Therefore, as explained in the 2015 report, the Committee made a decision again not to make awards under the LTIP in 2016. The Committee reviewed this point in 2017, and is considering making awards this year following the publication of the Company's 2017 interim results, in order to improve shareholder alignment over the longer term, and to ensure the competitiveness of the remuneration package at a critical time for the Company. Prior to the granting of any such award the Committee intends to discuss this and the proposed performance conditions with our major shareholders.

Last year's Annual Report on Remuneration received a vote in favour of 99.6% of votes cast at the 2016 AGM. We appreciate the continued support given by shareholders and the Committee hopes that both the decisions outlined in this Directors' Remuneration Report and the revised Remuneration Policy will meet with the approval of shareholders.

I will be in attendance at the Company's 2017 AGM 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.

Andrew Vickerman
Remuneration Committee Chairman
26 April 2017

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 2016.

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.

This revised Directors' Remuneration Policy will be put to shareholders for approval in a binding vote at the AGM on 20 June 2017. If approved, the revised Policy will take effect from the date of the AGM. The Committee's current intention is that the revised Policy will operate for the three year period to the AGM in 2020.

The Statement from the Chairman of the Remuneration Committee (set out on page 87) and the Annual Report on Remuneration (set out on pages 96 to 103) will be subject to an advisory vote at the AGM.

Remuneration policy report

The Group's Remuneration Policy is designed to provide remuneration packages to motivate and retain 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 Policy is unaudited.

The table below summarises the main elements of the remuneration packages for the Executive Directors.

Remuneration element	Base salary
Purpose and link to strategy	To provide a market competitive level of guaranteed cash earnings in order to attract and retain high calibre Executive Directors to manage and execute the Board's strategic plans.
Operation	The Committee reviews base salaries annually, taking into consideration any recommendation from the Company Chairman regarding the Executive Directors. Salary increases typically take effect from 1 January each year, unless there is a significant change in the responsibilities of the role. Reviews take account of: – The individual performance of the Executive Director, his or her experience, skills and potential; – The challenges intrinsic to that individual's role; – Market competitiveness within the Group's sector; – Salary increases across the wider employee population; and – The wider pay environment. 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.
Maximum opportunity	There is no prescribed maximum salary. It is generally expected that increases will be no higher than inflation, though the Committee has discretion to apply a higher increase in exceptional circumstances, e.g. material increase in role size or complexity, promotion, exceptional performance or any other factors the Committee considers 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	To provide market competitive benefits in order to enable the Company to retain and attract high calibre Executive Directors to manage and execute the Board's strategic plans.
Operation	Benefits may include (but are not limited to): – Private medical insurance for the individual and family; – Life assurance up to 4x salary, subject to underwriting; – Ill health income protection; and – 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	Not applicable.
Remuneration element	**Pension**
Purpose and link to strategy	To provide market competitive pension benefits in line with the wider workforce whilst ensuring no undefined liability for the Company.
Operation	All Executive Directors receive contributions from the Company into a personal pension plan or similar savings vehicle with the exception of Mr Hambro and Dr Maslovskiy, who do not receive pension benefits.
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	Not applicable.
Remuneration element	**Annual Bonus**
Purpose and link to strategy	To ensure a focus on and provide a financial incentive for the delivery of the annual budget and other short term financial and 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 achievement against pre-determined targets. Bonus payments, in part or in full, may be awarded in the form of Deferred Bonus Awards, i.e. deferred in shares which vest after one year or longer. The Committee retains the discretion to allow dividends (or equivalent) to accrue over the vesting period in respect of the awards that vest. Malus and clawback provisions may be applied for up to a period of two years post-payment in exceptional circumstances, including but not limited to material misconduct, material misstatement of the results, a calculation error and/or poor information when calculating the reward outcome.
Maximum opportunity	Maximum bonus opportunity is 100% of salary. For target level performance, the bonus earned is 50% 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. 100% of the bonus is currently linked to the achievement of Group bonus objectives. These are set by the Committee and may include measures such as: – Health and safety – Annual gold production – Total cash costs – All-in sustaining costs – Net debt – Free cashflow – Delivery of capital expenditure projects on time and within budget – Exploration success Details of the measures applicable for the financial year under review are provided in the Annual Report on Remuneration. 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 Committee may take into consideration the overall relative success of the Group when adjudicating bonus payments. The Committee may also include a discretionary underpin in the annual bonus plan to capture material adverse events, e.g. material events relating to health and safety.

Remuneration element	**Long term Incentive Plan ("LTIP")**
Purpose and link to strategy	To reinforce effective risk management by aligning Executive Directors' interests with the long term interests of shareholders through regular awards of performance shares vesting only on the satisfaction of challenging long term performance conditions.
Operation	Awards of performance shares are made which are based on performance over a minimum of three years. Awards vest on no earlier than the third anniversary of grant subject to (i) the satisfaction of performance targets and (ii) continued service. There is no opportunity to retest the performance conditions. The Committee retains the discretion to allow dividends (or equivalent) to accrue over the vesting period in respect of the awards that vest. A two year post-vesting holding period will apply to awards granted in 2017 and subsequent years. For these awards, vested shares may not be sold during the holding period except to cover tax liabilities.
Maximum opportunity	The maximum annual award is 100% of salary. However, in exceptional circumstances, such as to facilitate the recruitment of an external hire, this may be exceeded to a maximum of 200% of salary. Threshold performance will result in vesting of no more than 30% of the award.
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 are sufficiently challenging. The relevant metrics and the respective weightings may vary each year based upon the Company's strategic priorities. Details of the measures, weightings and performance targets used for specific LTIP grants are included in the Annual Report on Remuneration as relevant. The Committee may scale back the level of vesting of an award if it considers underlying operational or financial performance over the performance period has been significantly worse than the level of vesting would otherwise indicate. Malus and clawback provisions may be applied for up to a period of two years post-vesting in exceptional circumstances, including but not limited to material misconduct, material misstatement of the results, a calculation error and/or poor information when calculating the reward outcome.

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.

In respect of the annual bonus, strategic objectives are selected to ensure the delivery of the Company's immediate policy objectives within the wider context of the Group's long term strategy and corporate responsibilities. Other supporting annual objectives are selected to reflect key financial objectives of the Company, exploration success, delivery of specific investment projects and health and safety objectives, and to reward delivery against these.

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).

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, whilst 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 base salary, shift and production related bonuses where applicable to their role, together with certain benefits.

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 cycle and received awards in 2011. It is the intention that any future LTIP awards will be granted to senior employees 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.

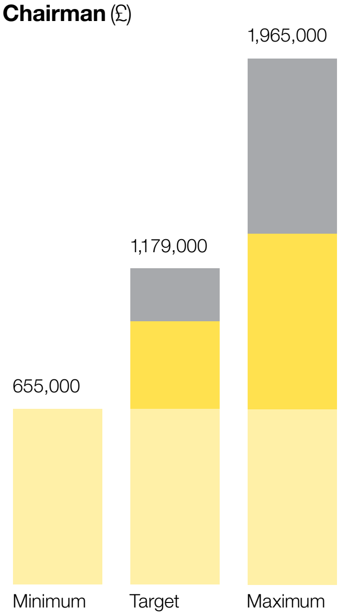
Shareholding guidelines

There is no formal requirement for Executive 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 in March 2015, have an interest, together with their associates, in 4.64% and 5.81% 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 and 21 times their annual salaries respectively.

The Committee is mindful that, given the significant shareholdings of Mr Hambro and Dr Maslovskiy, the introduction of minimum shareholding guidelines for Executive Directors will only have an impact on the Chief Financial Officer at this time. Given that there have been no LTIP awards for five years the Committee does not consider that the introduction of shareholding guidelines at this time would be equitable.

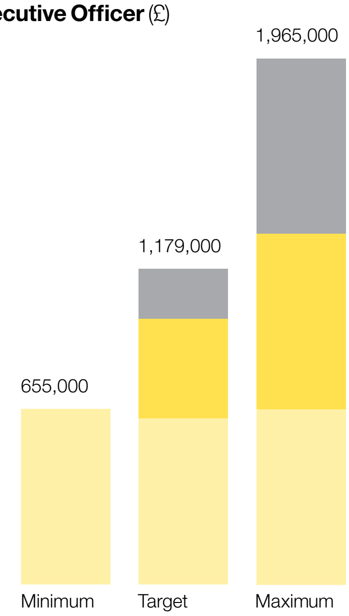
The Committee will continue to monitor market trends with respect to minimum shareholding guidelines for the Executive Directors and to keep this matter under review.

Executive Chairman (£)



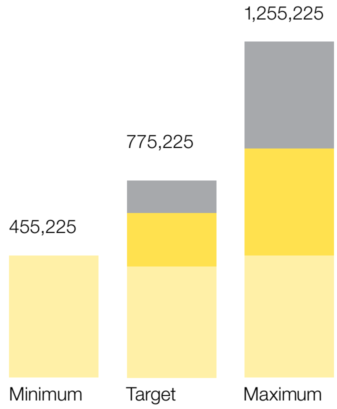
	Minimum	Target	Maximum
Salary	100%	55.5%	33.3%
Annual bonus	0%	27.8%	33.3%
LTIP	0%	16.7%	33.3%

Chief Executive Officer (£)



	Minimum	Target	Maximum
Salary	100%	55.5%	33.3%
Annual bonus	0%	27.8%	33.3%
LTIP	0%	16.7%	33.3%

Chief Financial Officer (£)



	Minimum	Target	Maximum
Salary	100%	58.7%	36.2%
Annual bonus	0%	25.8%	31.9%
LTIP	0%	15.5%	31.9%

Key
- LTIP
- Annual bonus
- Salary

Assumptions:

Minimum = base salary, benefits and pension where applicable (i.e. fixed remuneration only)

Target = fixed remuneration as above, plus annual bonus payout of 50% of maximum and LTIP threshold vesting of 30% of maximum award

Maximum = fixed remuneration as above, plus full payout of annual bonus and LTIP

Illustrations of pay for performance

Under the Company's Policy a significant proportion of remuneration received by Executive Directors is dependent on Company performance. The graphs above illustrate how the total remuneration opportunities for the Executive Directors vary under three different performance scenarios: minimum, target and maximum. Potential remuneration opportunities are based on the proposed Remuneration Policy, applied to salaries as at 1 January 2017: £655,000 for the Chairman, £655,000 for the Chief Executive Officer, and £400,000 for the Chief Financial Officer.
The value of taxable benefits is based on the cost of supplying those benefits (as disclosed on page 97) for the year ending 31 December 2016. The pension value for Mr Maruta is set at 12.5% of basic salary.

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 an LTIP award will be granted during 2017.

Approach to recruitment and promotion
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 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 in line with the Remuneration Policy 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 in the first year of his or her appointment, 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 Remuneration Policy. 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 typically continue over their original vesting period and remain subject to their original terms; further awards may also be considered. The maximum award for a new hire (or on promotion to Executive Director) is 200% of salary.

In addition, 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.

Where an Executive Director is appointed through internal promotion, and the individual has contractual commitments made prior to his or her promotion to the Board, the Company will continue to honour these arrangements.

Directors' Remuneration Report continued

Executive Director 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.

If the Company terminates the employment of an 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.

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.

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 enter into such arrangements only where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

Dates of Executive Director service contracts are as follows:

Executive Director	Position	Effective date of contract
Peter Hambro	Chairman	20 December 2001
Dr Pavel Maslovskiy	Chief Executive Officer	5 November 2014
Andrey Maruta	Chief Financial Officer	4 January 2011

Leaver and change of control provisions
The section below details how outstanding awards under incentive plans are treated in specific circumstances where the Executive Director's employment has terminated or where there has been a change of control or similar transaction event. Final treatment remains subject to the Remuneration Committee's discretion. When considering the use of discretion, the Committee reviews all potential incentive outcomes to ensure that any application of discretion is fair to both shareholders and participants.

Annual bonus
Any annual bonus payment will be at the discretion of the Committee and the decision to award a bonus, in full or in part, will depend on a number of factors including the circumstances of the individual'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.

For good leavers (defined as death, injury, ill health, disability, retirement with agreement of the Committee, the employing company or business being sold out of the Group, or any other reason that the Committee determines appropriate), unvested Deferred Bonus Awards 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. For all other leavers, awards will lapse.

On a change of control or similar transaction event, the Committee will assess the most appropriate treatment for the outstanding bonus period according to the circumstances. Deferred Share Awards will normally vest on the date of change of control subject to a pro-rata reduction to reflect the proportion of the vesting period remaining.

LTIP awards
For good leavers (defined as death, injury, ill health, disability, retirement with agreement of the Committee, the employing company or business being sold out of the Group, or any other reason that the Committee determines appropriate), unvested LTIP awards will vest on such date as determined by the Committee, 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. For all other leavers, awards will lapse.

On a change of control or similar transaction event, unvested LTIP awards will typically 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.

Remuneration Policy for Non-Executive Directors
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 and fair.
Operation	Paid monthly in arrears and reviewed annually by the Board, after recommendation from the Chairman. Fee increases, if applicable are normally effective from 1 January.
Maximum opportunity	There is no prescribed maximum annual increase although fees are determined by reference to time commitment and relevant benchmark market data. The Chairman of the Audit Committee, the Remuneration Committee and the Senior Independent Director may also receive an additional fee in recognition of the greater time commitment. The aggregate annual fees are limited to £1.0 million under the Company's Articles of Association.
Performance metrics	Not applicable.

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. Dates of Non-Executive Director appointment letters are as follows:

Name	Date of original appointment	Unexpired term as at 31 December 2016	Date of appointment/last reappointment at AGM	Notice period
Robert Jenkins	30 April 2015	16 months	2016	3 months
Alexander Green	27 August 2015	20 months	2016	3 months
Andrew Vickerman	22 October 2015	22 months	2016	3 months

Consideration of employment conditions elsewhere in the Company
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 currently actively consult with employees on executive remuneration.

Further information on the Group's employment policies are provided in the Environmental, Safety and Social Report on pages 34 and 35 of this Annual Report.

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 in advance of making any material changes to remuneration.

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 ending 31 December 2016, and how it will be implemented in 2017. Any information contained in this section of the report that is subject to audit is highlighted.

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 members and activities of the Committee in 2016

The Committee comprises two Independent Non-Executive Directors, Andrew Vickerman, as Chairman, and Alexander Green. Sir Roderic Lyne retired as Chairman and as a member of the Committee on 28 June 2016. It is the intention that the additional Independent Non-Executive Director which the Company is in the process of appointing, will become a member of the Committee.

The Committee held two formal meetings during the year, with regular ongoing communication between Committee members to consider and finalise certain matters.

The Company Chairman attended parts of meetings in 2016 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. Key activities during the year included:

- Review and approval of the 2015 Directors' Remuneration Report
- Review and approval of the 2015 annual bonus outcome
- Review and approval of the 2016 annual bonus performance measures and targets
- Review of Executive Directors' total remuneration, including Executive Directors' salaries for 2016
- Review of the Company's Remuneration Policy in the context of external market developments and best practice in remuneration.

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, benchmarking analysis, regular market and best practice updates, and support with drafting of the Directors' Remuneration Report. In 2016, Kepler additionally provided support in reviewing the Remuneration Policy. Kepler is a signatory to the Code of Conduct for Remuneration Consultants of UK listed companies (which can be found at www.remunerationconsultantsgroup.com).

Kepler reports directly to the Committee Chairman and neither Kepler nor any other part of the MMC group of companies provides any other services to the Company, with the exception that Marsh Ltd has been appointed as insurance broker for some of the Group's UK and global policies and Mercer Marsh Benefits has been appointed as broker for the private medical healthcare scheme for the Company's UK based employees. Kepler's total fees for the provision of remuneration services to the Committee in 2016 were £9,920 on the basis of time and materials, excluding expenses and VAT.

Shareholder voting at the 2016 AGM

The table below sets out the results of the vote on the 2015 Annual Report on Remuneration at the 2016 AGM:

	Annual Report on Remuneration	
	Total number of votes	% of votes cast
For (including Chairman's discretion)	1,841,277,767	99.62%
Against	7,055,454	0.38%
Total votes cast (excluding withheld votes but including third party discretion)	1,852,971,078	
Votes withheld	4,637,857	

Notes:

The resolution to approve the 2015 remuneration report was passed on a poll.

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 2016 and 31 December 2015:

	Year	Salary & fees	Taxable Benefit[a]	Annual Bonus[b]	Pension	Single Figure Remuneration Total £	Single Figure Remuneration Total US$
Executive Director							
Peter Hambro	2016	655,000	–	131,000	–	786,000	1,065,030
	2015	655,000	–	–	–	655,000	1,002,150
Pavel Maslovskiy	2016	655,000	–	131,000	–	786,000	1,065,030
	2015	655,000	–	–	–	655,000	1,002,150
Andrey Maruta	2016	395,000	12,958	79,000	49,375	536,333	726,731
	2015	395,000	2,133	–	49,375	446,508	683,158
Total	2016	1,705,000	12,958	341,000	49,375	2,108,333	2,856,791
Total	2015	1,705,000	2,133	–	49,375	1,776,508	2,687,408
Non-Executive Director							
Robert Jenkins[c]	2016	87,500	–	–	–	87,500	118,562
	2015	56,667	–	–	–	56,667	86,700
Alexander Green[d]	2016	75,000	–	–	–	75,000	101,625
	2015	25,865	–	–	–	25,865	39,574
Andrew Vickerman[e]	2016	75,000	–	–	–	75,000	101,625
	2015	12,500	–	–	–	12,500	19,125
Sir Roderic Lyne[f]	2016	37,500	–	–	–	37,500	50,813
	2015	80,667	–	–	–	80,667	123,420
Total	2016	275,000	–	–	–	275,000	372,625
Total	2015	175,699	–	–	–	175,699	268,819

(a) 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 pay in lieu of holiday entitlement.

(b) Value of cash bonuses and Deferred Bonus Awards awarded in respect of the corresponding performance year. For the year ended 31 December 2016, the bonus payable will be paid 50% in cash with the remaining 50% payable as a Deferred Bonus Award under the Company's LTIP.

(c) Mr Robert Jenkins was appointed as a Non-Executive Director of the Company on 30 April 2015. During 2016, Mr Jenkins received additional payments in respect of his chairmanship of the Audit Committee and his appointment as Senior Independent Non-Executive Director.

(d) Mr Alexander Green was appointed as a Non-Executive Director of the Company on 27 August 2015.

(e) Mr Andrew Vickerman was appointed as a Non-Executive Director of the Company on 22 October 2015.

(f) Sir Roderic Lyne retired as a Non-Executive Director of the Company at the conclusion of the Company's 2016 AGM held on 28 June 2016.

(g) Rates of exchange used: 2016: £0.738:US$1, 2015: £0.65:US$1 (average exchange rate throughout the year).

Implementation of the Remuneration Policy in 2016

Executive Directors

Salary

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.

Pension

The Group makes contributions into a personal pension scheme on behalf of Mr Andrey Maruta, Chief Financial Officer. 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. Any cash payment is also made to Mr Maruta net of an amount equivalent to the amount of employer's national insurance contributions payable on the cash payment such that the Company is not disadvantaged by making the payment in cash rather than as a pension payment which is not subject to employer's national insurance. For the period ended 31 December 2016, the Group's pension contribution for Mr Maruta was £49,375. Mr Hambro and Dr Maslovskiy received no payment from the Company in respect of pension entitlements.

Annual bonus

For 2016, the annual bonus was based 60% on strategic objectives, 10% on production, 10% on each of reduction in net debt and average total cash costs, and 10% on health and safety. The maximum bonus opportunity was 100% of salary, and target bonus was 60% of salary. The performance targets and actual achievement during the year, and the resulting bonus outcome, are set out in the table below.

Objective	Target	Pay out for target performance (% of max)	Stretch target	Pay out for stretch performance (% of max)	Achieved	Bonus payable (% of max)
Total Group production	480,000oz	6%	500,000oz	10%	416,000oz	0%
Total Cash Costs per oz	US$650oz	6%	<US$630oz	10%	US$660oz	0%
Net Debt	US$570m	6%	<US$560m	10%	US$598.6m	0%
Health & Safety – LTIFR	2.5	6%	=/<2.25	10%	2.64	0%
Progression of underground mining project to allow production in 2017, within budget	N/A	12%	20%	20%	Judged by Committee on a discretionary basis – see below	12%
Continuing construction of the POX Hub in H2 2016 or entering into a Joint Venture arrangement for the completion of the POX Hub		12%	20%	20%		8%
Transactional	N/A	12%	N/A	20%		0%
Total		60%		100%		
Bonus earned						20%

Given the subjectivity of these bonus objectives, the Committee based its final adjudication on information available following the 2016 year end, including actual expenditure against budget. As detailed below the Committee adjusted the outcome of the bonus payable for the construction of the POX Hub downwards to 8%.

Underground mining:
As at 31 December 2016, the underground mining project at Pioneer had progressed considerably, with 675 linear metres of underground workings, including development of the main ramp, the ventilation shaft, two ventilation holdings, three chambers for underground drilling and ancillary workings. First production is expected to commence in Q2 2017. Further information on the underground mining project is included on page 45.

Given the progress on the underground mining project the Committee decided to award a bonus of 12% out of a maximum of 20%.

Continuing construction of the POX Hub:
The construction of the POX Hub was progressed during the latter part of 2016, with significant progress being made at Pokrovka on the POX Hub and at the flotation plant at Malomir. Key contracts were renewed with Outotec during 2016 and the Company conducted an internal review of the 2010 feasibility study into refractory ore processing solutions. Operating costs and project economics were updated.

Significant progress was made on this project during 2016 (see pages to 46 to 47), however the project was delayed due to the Senior Lenders review of the project's feasibility. Whilst recognising that this was not the fault of the Executive team and that significant progress had been made following the decision by the Senior Lenders that the Company should proceed with the construction of the POX Hub on a standalone basis rather than with the proposed joint venture arrangement, the Committee decided that given the delay the actual outcome is 8% out of a maximum of 20%.

Transactional:
No bonus was awarded in respect of this objective which related to the successful acquisition of complementary gold producing assets and/or the identification of other gold producing or brown field assets with the potential to unlock value for all stakeholders.

Based on the progress of the underground mining project and the construction of the POX Hub, the Committee awarded a bonus of 20% of salary to the Executive Directors.

The Committee further agreed that 50% of the bonus payable should be paid in cash with the remaining 50% payable in the form of a Deferred Bonus Award, rather than 75% payable in cash and 25% as a Deferred Bonus Award as detailed in the 2015 report.
The Deferred Bonus Awards will be granted following the publication of the 2016 Annual Report, and will vest after one year subject to the continued employment of the individual.

LTIP
No grant was made under the LTIP during 2016.

Non-Executive Directors
During 2016, fees for the Non-Executive Directors remained unchanged. The base fee was £75,000. The Chairman of the Audit Committee and the Senior Non-Executive Director were 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 who retired on 28 June 2016 did not receive the additional payment due to him for his role as Senior Non-Executive Director. The Chairman of the Remuneration Committee was entitled to an additional fee of £7,500 per annum. At their request Sir Roderic Lyne who was Remuneration Committee Chair until 28 June 2016 and Mr Andrew Vickerman who was Remuneration Committee Chair from 29 June 2016 did not receive this additional fee.

Payments for loss of office and to past Directors
There were no payments made for loss of office during the year, and no payments to past Directors during the period in respect of services provided to the Company as a Director.

External directorships
None of the Executive Directors earned remuneration from external non-executive appointments during the year.

Statement of implementation of Remuneration Policy in 2017

The section below sets out a summary of how the proposed Remuneration Policy will be implemented for the year ended 31 December 2017.

Executive Directors

Salary

The Remuneration Committee reviewed the Executive Directors' salaries for 2017 in December 2016. It was agreed that the Chief Financial Officer would receive an increase of 1.3%. No increase was awarded to either the Company Chairman or the Chief Executive Officer, recognising the Group's continuing financial cash constraints.

Salaries as at 1 January 2016 and 1 January 2017 for current Executive Directors are detailed in the table below:

Director	Position	Salary/fees 2017	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	£400,000	£395,000	1.3%

Annual bonus

The maximum annual bonus opportunity for 2017 remains 100% of salary for Executive Directors. Target bonus has been reduced from 60% to 50% of salary; bonuses will be payable on a straight line basis between target and stretch.

The 2017 annual bonus performance measures are set out in the table below:

Objective	Weighting
Operational	
Production	20%
All-in Sustaining Costs per ounce	20%
Health and Safety – Lost Time Injury Frequency Rate Target	10%
Financial	
Leveraged ratio - Net Debt/EBITDA	10%
Strategic	
Construction of the POX Hub as per approved schedule and budget	20%
Underground mining project as per approved schedule and budget	20%

As was the case last year, details of the specific targets have not been disclosed in advance due to their commercial sensitivity. Full retrospective disclosure of the specific targets and performance against them will be provided in the 2017 Annual Report on Remuneration.

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.

For 2017, 50% of any bonus payable will be paid in the form of a Deferred Bonus Award, vesting after one year subject to continued service. The remaining 50% 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, for a period of up to two years post payment.

LTIP

The Committee currently proposes to grant LTIP awards following the publication of the Company's 2017 interim results. The Committee intends to consult with the Company's major shareholders on the proposed performance conditions in advance of making the awards.

Non-Executive Directors

The Non-Executive Directors' fees as at 1 January 2016 and 1 January 2017 are detailed in the table below:

	Fees 2016	Fees 2017	Change
Base fee	£75,000	£75,000	0%
Additional Senior Independent Director fee	£7,500	£7,500	0%
Additional Audit Committee Chairman fee	£10,000	£10,000	0%
Additional Remuneration Committee Chairman fee	£7,500	£7,500	0%

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 Amur Region, Russian Far East and also include geologists, technicians at the Group's laboratories and functional staff at the Group's offices in Blagoveshchensk, Moscow and London, the Committee believes that using the Executive Committee, excluding the Company Chairman, as a subset for the purposes of comparing CEO pay against wider employee pay provides a more useful and meaningful comparison than using pay data for all employees.

	CEO		Executive Committee
Item	2016 £	% Change	Average % Change
Base salary	655,000	0	0
Taxable benefits	–	0	(11.2)
Annual bonus[(a)]	131,000	N/A	N/A

(a) 50% of the of the bonus payable will be paid in cash with the remaining 50% payable in the form of a Deferred Bonus Award. No bonus was payable for the year ended 31 December 2015.

Relative importance of the spend on pay

The table below shows the movement in spend on staff costs between the 2016 and 2015 financial years, compared to profit before tax and dividends:

	2016	2015	Change
Staff costs – continuing operations	US$80.09	US$89.5m	(10.01)
Average number of staff – continuing operations	8,064	8,469	(4.8%)
Profit/(loss) before taxation	US$27.0m	US$(141.6m)	(119%)
Dividends	–	–	–

There were no dividends paid or declared during the years ended 31 December 2016 and 31 December 2015 and no share buy backs were undertaken.

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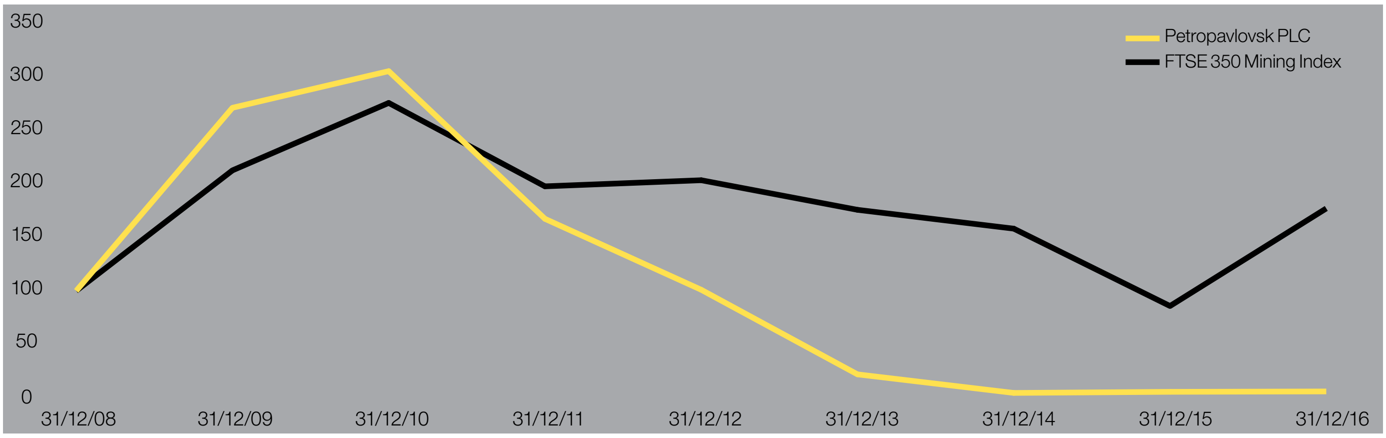
Total shareholder return

This graph shows the Company's TSR performance relative to the FTSE350 Mining Index over a period of eight years to 31 December 2016. The Board considers the FTSE350 Mining Index to be an appropriate index for comparison as the constituents represent the UK listed mining sector.

£100 invested in Petropavlovsk and FTSE350 Mining Index on 31 December 2008



Chief Executive Officer Remuneration

The table below shows the single figure of total remuneration for the Chief Executive Officer during each of the last eight financial years.

	Year ended 31 December							
	2009	2010	2011	2012	2013	2014	2015	2016
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	655,000	786,000
Annual bonus (%)	70% [(b)]	45%	94.4%	45.5%	0%	100%	0% [(c)]	20%
LTIP vesting (%)	0%	0%	0%	0%	0%	N/A	N/A [(c)]	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 re appointed as Chief Executive Officer on that date.

(b) Dr 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 Aricom plc and to the admission of the Company's shares to trading on the Main Market of the London Stock Exchange plc. The special bonus payment of £225,000 is included in the total remuneration for 2009 shown above but is not included in the annual bonus percentage figure shown of 70%.

(c) 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 2016 to 31 December 2016 in the ordinary shares of the Company, together with details of changes to shareholdings between 1 January 2017 and 26 April 2017, are as set out in the table below.

Director	Shares held as at 1 January 2016	Shares held as at 31 December 2016 or date of retirement if earlier[(a)]	Shares held as at 26 April 2017
Peter Hambro	152,280,861	152,280,861	152,280,861
Pavel Maslovskiy	186,126,105	190,774,346	190,774,346
Andrey Maruta	33,925	33,925	33,925
Sir Roderic Lyne	28,540	28,540	N/A
Robert Jenkins	750,000	750,000	750,000
Alexander Green	0	0	0
Andrew Vickerman	0	0	0

(a) Sir Roderic Lyne retired as a Non-Executive Director of the Company at the conclusion of the Company's AGM held on 28 June 2016.

Outstanding share awards

With the exception of the Deferred Bonus Award made to Dr Maslovskiy on 1 May 2015 in respect of his 2014 bonus there were no LTIP Awards outstanding as at 1 January 2016 and no LTIP Awards were made during the year.

The Deferred Share Award made to Dr Maslovskiy on 1 May 2015 vested on 1 May 2016.

Director	Date of award	At 1 January 2016	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

Approval

The Annual Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

Andrew Vickerman
Chairman, Remuneration Committee
26 April 2017

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Directors’ Report

For the year ended 31 December 2016

This report

The Corporate Governance Section on pages 72 to 79 and the Statement of Directors’ Responsibilities on page 111 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 69 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 following directors were in office during the year and up until the signing of the financial statements:

Mr Peter Hambro, Chairman

Dr Pavel Maslovskiy, Chief Executive Officer

Mr Andrey Maruta, Chief Financial Officer

Mr Robert Jenkins, Non-Executive Director

Mr Alexander Green, Non-Executive Director

Mr Andrew Vickerman, Non-Executive Director

Sir Roderic Lyne retired as a Non-Executive Director at the conclusion of the Company’s Annual General Meeting (AGM) on 28 June 2016. Mr Robert Jenkins, a director since 30 April 2015, replaced Sir Roderic in his role as Senior Independent Director.

Biographical details of each of the directors are provided on pages 70 and 71 and are incorporated into this report by reference.

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 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 2017 AGM.

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 152.

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 2016. 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, Reserves and Resources and the Development Projects sections on pages 36 to 55 of the Strategic Report and are incorporated into this Directors' Report by reference.

Greenhouse gas emissions
The disclosures concerning greenhouse gas emissions required by law are included in the Key Performance Indicators on page 19.

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 pages 34 to 35.

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 30 to the financial statements and in the Risks to Our Performance section on pages 20 to 33, which form part of this Directors' Report.

3. Share capital and related matters

3.1 Share capital
As at 31 December 2016, the Company's issued share capital comprised of a single class of 3,303,768,532 ordinary shares of £0.01 each. Details of the Company's issued share capital are set out n note 23 to the financial statements on page 150.

Petropavlovsk's Articles of Association provide the authority for the Company to purchase its own shares provided that it complies with any applicable requirements contained in the Companies Act 2006, the CREST regulations or any other applicable law. The Company did not seek authority from shareholders to make purchases of its own shares at the 2016 AGM and no such authority will be sought in 2017.

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 and the Market Abuse Regulation whereby certain Directors, officers and employees of the Company require the approval to deal in the Ordinary Shares in accordance with the Company's share dealing rules.

3.6. Allotment of Ordinary Shares and disapplication of pre-emption rights
The Company has authority to issue Ordinary Shares under its Articles of Association.

Petropavlovsk's shareholders passed the following resolution relating to the allotment of shares at the 2016 AGM.

- The Directors were granted authority to allot new shares (or grant rights to subscribe for or convert securities into shares) up to a nominal value of £10,890,000, equivalent to approximately 33% of the total issued Ordinary Share capital of the Company, exclusive of treasury shares, at the time of passing the resolution. In addition to this, the Directors were also granted authority to allot additional new shares (or grant rights to subscribe for or convert any security into shares) up to a further nominal amount of £10,890,000, but only in connection with a rights issue.

  This authority has not been exercised during the reporting period and will expire on the date of the forthcoming AGM.
- The Directors withdrew the resolution seeking to apply pre-emption rights prior to the 2016 AGM.

Resolutions for a renewal of the authority to allot new shares together with authority to disapply pre-emption rights over new shares allotted for cash pursuant to the authority to allot new shares will be sought at the 2017 AGM. The resolutions being sought as regards pre-emption rights disapplication reflect the requirements of the Pre-Emption Group's revised Statement of Principles that provide for certain non-pre-emptive allocations in the context of acquisitions and specified capital investments.

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 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 ordinary shares	Qualifying Financial Instruments	% voting Rights	Financial instruments with similar economic effect to Qualifying Financial Instruments	% voting rights	Total number of voting rights	% of voting rights
Renova Assets Ltd Renova Holding Ltd TZ Columbus Services Limited (as trustee for Columbus Trust)	483,992,987	14.76	–	–	–	–	483,992,987	14.76
Vailaski Holdings Limited[a]	395,491,398 (380,325,518 indirect)	12.05 (11.59% indirect)	–	–	–	–	395,491,398 (380,325,518 indirect)	12.05 (11.59% indirect)
Public joint stock company Asian-Pacific Bank[a]	380,325,518	11.59	–	–	–	–	380,325,518	11.59
Sothic Capital European Opportunities Master Fund Limited[b] 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
Public Joint Stock Company Metkombank	145,075,249	4.42	–	–	–	–	145,075,249	4.42
Mr Andrey Vdovin through Vailaski Holdings Limited[a]	131,830,466	4.02	–	–	–	–	131,830,466	4.02
D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP[d],[e] DBMMA015 is the full name of the shareholder with respect to the indirect interest over 117,609,333 Ordinary Shares	117,609,333(e)	3.59	–	–	139,000,000	4.24 (Delta)	256,609,333	7.82
Polo Company S.A. [f] Lamesa Group Holding S.A. Lamesa Foundation	–	–	–	–	225,674,382	6.88 (nominal)	225,674,382	6.88

(a) Each of Mr Peter Hambro, Chairman, Dr Pavel Maslovskiy, Chief Executive Officer and Mr Andrey Vdovin has call and voting rights and is each subject to put rights in respect of 131,830,466 of the ordinary shares through an option agreement with Vailaski Holdings Limited (the 'HMV Option'). As at 31 December 2016 Vailaski Holdings had advised that it was to enter into an option agreement with Asian-Pacific Bank in respect of 380,325,518 shares which mirror those of the HMV Option, thus forming a back to back arrangement.

(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) D E Shaw & Co has an interest in financial instruments with similar economic effect to qualifying financial instruments in relation to contract for differences.

(e) Indirect holding.

(f) 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.

(g) The issued share capital as at 31 December 2016 was 3,303,768,532 ordinary shares with 3,281,393,974 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 2016:

Shareholder	No. of Shares	% interest in voting rights
Dr Pavel Maslovskiy & Associates	190,774,346	5.81
Mr Peter Hambro & Associates	152,280,861	4.64

The shares detailed in the above table include the voting rights over 131,830,466 ordinary shares that each of Mr Hambro and Dr Maslovskiy has in the ordinary shares held by Asian-Pacific Bank and Vailaski (see note (a) above).

As at 26 April 2017, the Company had received the following disclosures of major holdings of voting rights, pursuant to the requirements of DTR5, from holders of notifiable interests in the Company's voting rights:

	No of Shares	% interest in voting rights ordinary shares	Qualifying Financial Instruments	% voting Rights	Financial instruments with similar economic effect to Qualifying Financial Instruments	% voting rights	Total number of voting rights	% of voting rights
Renova Assets Ltd Renova Holding Ltd TZ Columbus Services Limited (as trustee for Columbus Trust)	483,992,987	14.76	–	–	–	–	483,992,987	14.76
Vailaski Holdings Limited[a]	395,491,398 (380,325,518 indirect)	12.05 (11.59% indirect)	–	–	–	–	395,491,398 (380,325,518 indirect)	12.05 (11.59% indirect)
Public joint stock company Asian-Pacific Bank[a]	380,325,518	11.59	–	–	–	–	380,325,518	11.59
Sothic Capital European Opportunities Master Fund Limited[b] Gertjan Koomen	347,534,872	10.60	–	–	–	–	369,372,525	11.05
Prudential plc group of companies[c]	224,905,854	6.86	250,005	0.00	14,837,653	0.44 (Delta)	225,155,859	6.86
Public Joint Stock Company Metkombank	145,075,249	4.42	–	–	–	–	145,075,249	4.42
Mr Andrey Vdovin through Vailaski Holdings Limited[a]	131,830,466	4.02	–	–	–	–	131,830,466	4.02
D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP[d),(e] DBMMA015 is the full name of the shareholder with respect to the indirect interest over 117,609,333 Ordinary Shares	117,609,333[e]	3.59	–	–	139,000,000	4.24 (Delta)	256,609,333	7.82
Lamesa Holding S.A.[f] Lamesa Group Holding S.A. Lamesa Foundation	103,870,829	3.1654	–	–	225,674,382	6.88 (nominal)	329,545,211	10.0428

(a) Each of Mr Peter Hambro, Chairman, Dr Pavel Maslovskiy, Chief Executive Officer and Mr Andrey Vdovin has call and voting rights and is each subject to put rights in respect of 131,830,466 of the ordinary shares through an option agreement with Vailaski Holdings Limited (the 'HMV Option'). Vailaski Holdings has entered into an option agreement with Asian-Pacific Bank in respect of 380,325,518 shares, which mirror those of the HMV Option, thus forming a back to back arrangement.

(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) D E Shaw & Co has an interest in financial instruments with similar economic effect to qualifying financial instruments in relation to contract for differences.

(e) Indirect holding.

(f) 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.

(g) The issued share capital as at 26 April 2017 is 3,303,768,532 ordinary shares with 3,281,393,974 voting rights.

The following Directors and their connected persons have an interest in 3% or more of the voting rights of the Company as at 26 April 2017:

Shareholder	No. of Shares	% interest in voting rights
Dr Pavel Maslovskiy & Associates	190,774,346	5.81
Mr Peter Hambro & Associates	152,280,861	4.64

The shares detailed in the above table include the voting rights over 131,830,466 ordinary shares that each of Mr Hambro and Dr Maslovskiy has in the ordinary shares held by Asian-Pacific Bank and Vailaski (see note (a) above).

As at 26 April 2017, the Company has not received any notification that any other person holds 3% or more of the voting rights of the Company.

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.

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 2016 to the date of this report except for the following.

In February - March 2017, the Group has entered into forward contracts to sell an aggregate of 549,994oz of gold during the years 2017 - 2019 at an average price of US$1,252/oz.

5. 2017 Annual General Meeting (AGM)

5.1. Notice of General Meeting
A separate document, the Notice of Annual General Meeting 2017, convening the AGM of the Company to be held on 20 June 2017 at 10.00 a.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 2016 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	Not applicable
2	Publication of unaudited financial information	Not applicable
4	Details of long term incentive schemes	Remuneration Report pages 90 and 103
5	Waiver of emoluments by a Director	Remuneration Report pages
6	Waiver of future emoluments by a Director	Not applicable
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
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 69 of this Annual Report. The financial position of the Group, its cash flows and liquidity position are described in the Chief Financial Officer's statement on pages 58 to 69 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 prepared regularly based on a number of inputs including, but not limited to, forecast commodity prices and impact of hedging arrangements, the Group's mining plan, forecast capital 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 2016 Annual Report and Accounts. As at 31 December 2016, the Group had sufficient liquidity headroom and complied with related financial covenants. Following the successful completion of the Bank Debt Refinancing, the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to May 2018 and expects to comply with related financial covenants. In the meantime, the Group's projections under a reasonable downside scenario indicate that, unless mitigating actions can be taken including accessing deposits not currently in the Group's mining plan, there will be insufficient liquidity and non-compliance with certain financial covenants for the relevant period to May 2018. If a missed debt repayment occurs or financial covenant requirements are not met, 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 Directors are confident that, should it be required, relevant mitigating actions could be successfully implemented.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$234 million as at 31 December 2016. 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. IRC has agreed with ICBC to restructure and reschedule two repayment instalments under the ICBC Facility Agreement, which are originally due for payment on 20 June 2017 and 20 December 2017, with next repayment instalment due on 20 June 2018. IRC also obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive).

Having taken into account the aforementioned factors, and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation 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 2016 Annual Report and Accounts. Accordingly, 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 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. These include those of 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 financial 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 ('the assessment period') to 2020, as in 2015, 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:

- During 2016 the Group refinanced US$430 million of its bank debt with Sberbank and VTB (the "Senior Lenders"). In addition, the Sberbank US$100 million commodity linked loan facility is expected to be effective in May 2017. Total Group bank debt of US$530 million will then have been refinanced with some repayments outside of the assessment period, as detailed below.
- The extended maturity profiles of the refinanced debt are aligned with the Group's production profile, expected cash generation and growth capital expenditure plans.
- The refinancing provides for a revised repayment schedule including certain conditions to extend maturities from 2019 to 2022 as follows:

2017	US$40.6 million
2018	US$55.5 million
2019	US$122 million
2020	US$93.5 million
2021	US$124.7 million
2022	US$93.5 million

- The above maturity profile is subject to all of the following conditions being satisfied by December 2019:
  - Operational completion of the POX Hub before 1 December 2019, and its construction being undertaken out of its free cash flow
  - Total Consolidated Net Debt to EBITDA ratio for 12 months ending on 30 June 2019 less than or equal to 2.5:1
  - Evidence of funds (minimum 80% of the total outstanding principal amount of the Convertible Bonds) and/or confirmation that Convertible Bonds due 2020 will be repaid in full by means of conversion into Petropavlovsk equity or their maturity being extended and subordinated to the banks loans repayment schedule (after extension).
  - The Board expects that the above conditions will be satisfied

- The Group's ability to repay its Convertible Bonds due March 2020 in full in the event that the Convertible Bonds have not been converted into Petropavlovsk equity
- The inherent significant uncertainties in forecasting the gold price and Russian Rouble to US Dollar exchange rate over a longer term timeframe.

Forecasts are prepared using forward commodity price and the Russian Rouble US Dollar exchange rate assumptions which the Board consider to be liquid for a period of three years. In addition, as detailed on pages 44 to 47, the Group plans to:

- Commission the POX Hub scheduled to start in Q4 2018, and commence production in 2H 2018, with its ramping up through 2019
- Continue development of its underground mining project, with first production at both Pioneer and Malomir expected to commence in H2 2017.

While the Group's long term mining plan ("LTP") 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 "assessment period"). However the Directors do have 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 longer term debt, on the basis that the Company satisfies the conditions to extend the bank loans repayment schedule from 2019 to 2022 and considers the Group's life of mine plans.

The Directors give careful consideration to 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 LTP makes certain assumptions regarding the future gold price environment and the Russian Rouble US Dollar exchange rates. The LTP is stress tested for market sensitivities as part of ongoing reviews. The key components of the LTP, associated 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 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 2016, the Board 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, 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. The Group's principal risks are set out in detail on pages 22 to 33.

The key assumptions that are included in the three year forecast are that the Group will be able to:

i) Complete the construction of the POX Hub out of free cash flow for full commissioning in 2019
ii) Achieve the Group's production profile, cash generation and adhere to the capital expenditure plans on which the refinancing was based
iii) Commence underground mining at Pioneer and Malomir in 1H 2017
iv) Adhere to the revised repayment schedule with the Senior Lenders.

On this basis, the three year forecast supporting the Group's longer term viability statement also assumes that IRC will be able to satisfy its repayment obligations to ICBC during 2018 and 2019. As already announced ICBC has agreed that the two repayment instalments originally due from IRC in 2017, amounting to a total of c.US$43 million, will be repayable in the five subsequent repayment instalments from June 2018 to June 2020.

In addition, the Board expects that full commissioning at IRS's K&S facility will be achieved in the first half of 2017, which will enable IRC to generate sales and sufficient cash flow to finance its operations and to meet its financial obligations as and when they fall due.

Conclusion

On the basis of the key assumptions described above, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liability as they fall due, during the next three years to June 2020. 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
26 April 2017

Directors' Responsibilities Statement

For the year ended 31 December 2016

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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 and performance, business model and strategy.

This responsibility statement was approved by the board of directors on 26 April 2017 and is signed on its behalf by:

Peter Hambro
Chairman
26 April 2017

Andrey Maruta
Chief Financial Officer
26 April 2017

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2016

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 2016 and of the Group's profit 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 that we have audited comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group Cash Flow Statement;
- the Group and Parent Company Statements of Changes in Equity;
- the Group Statement of Accounting Policies;
- the related notes 1 to 36 to the Group financial statements;
- the Parent Company Statement of Accounting Policies; and
- the related notes 1 to 10 to the Parent Company financial statements.

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".

Summary of our audit approach	
Key risks	The key risks that we identified in the current year were: – Going concern – Recoverability of gold in circuit inventory – Impairment of property, plant & equipment In the prior year 'inventory' and 'impairment of exploration and evaluation assets' were also included as key risks in our audit opinion. In 2016 we have refined our inventory key risk area to focus on the recoverability of gold in circuit inventory. Whilst exploration and evaluation assets remain a judgemental area, following the disposal of the Vysokoye assets in April 2016, the Group's E&E portfolio has been rationalised and simplified. As a result, this was not an area of significant audit effort in 2016 and not included as a key risk within our audit report.
Materiality	In the current year we determined our materiality for the Group to be $10 million (2015: $12 million) which is less than 2% of net assets, the basis on which our materiality was determined.
Scoping	Our Group audit scope included a full audit of all operating mines and service entities. Our full scope procedures covered 99% of the Group's revenue (2015: 97%) and 91% of the Group's total assets (2015: 89%).
Significant changes in our approach	There have been no significant changes in our approach to the audit aside from the changes to the key risks discussed above.

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 a to the financial statements and the directors' statement on the longer term viability of the Group on page 109. We are required to state whether we have anything material to add or draw attention to in relation to: – the directors' confirmation on page 110 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 20 to 33 that describe those risks and explain how they are being managed or mitigated; – the directors' statement in note 2.1 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; and – the directors' explanation on page 109 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.	**We confirm that we have nothing material to add or draw attention to in respect of these matters.** **We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.**
Independence	
We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.	**We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with the Financial Reporting Council's Ethical Standards for Auditors. 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
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.

Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2016

Risk description	How the scope of our audit responded to the risk	Key observations
Going concern See note 2.1 and the Audit Committee Report on page 83 for further details We consider the application of the going concern basis of accounting and the related disclosures to be a key risk as the Group is dependent on generating sufficient cash flows to maintain sufficient liquidity to continue operating under the normal course of business, meet scheduled loan repayments and covenant requirements, and hence operate within the parameters of its debt facilities. Volatility in the gold price, the availability of accessible ore reserves and the Group's capital expenditure requirements, in particular with regards to the POX Hub, place increased pressure on these cash flows. Management has concluded that the going concern basis of accounting remains appropriate after performing a detailed forecast of liquidity and covenant compliance for a period of 12 months from the date of approval of the 2016 Annual Report. There is therefore a risk that the going concern basis of accounting will be adopted inappropriately or that the disclosures are not adequate.	We challenged the key assumptions in management's forecast cash flows for the next 12 months, both base case and downside scenarios, by: – reviewing management's going concern paper which was approved by 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 and also indemnified a number of mitigating actions to counter reasonable downside scenarios; – comparing cash flow forecasts for 2017 with the Board approved budget for that period, and obtained explanations for any significant differences; – comparing the forecast gold price assumption with the latest set of broker forecasts; – using our mining specialists, VenmynDeloitte, to challenge the reasonableness of the production profile and recovery rates and assess the extent to which further oxide ore reserves can add to production levels by interviewing the chief geologists at the mine sites and reviewing the State approved reserve submissions; – assessing the historical accuracy of budgeted production with the assistance of VenmynDeloitte; – agreeing the Group's committed debt facilities and hedging arrangements to supporting documentation; – testing the mechanical accuracy of the cash flow models and the related covenant forecasts; – assessing the impact of the Group's continuing guarantee of its associate IRC Ltd's debt with ICBC, through assessment of the likelihood of the guarantee being called during the going concern period; – reviewing the covenant waiver and repayment holiday documentation as provided to IRC by their lenders for the going concern period; and – assessing whether the disclosures relating to going concern included in the financial statements are balanced, proportionate and clear. In addition we include above our conclusion on our review of the directors' statement in respect of the Group's ability to continue as a going concern.	Based on our procedures performed we are satisfied that the going concern assumption remains appropriate given the headroom available in management's base case. We are also satisfied that the mitigating actions management has identified in the event of a liquidity shortfall arise under a reasonable downside scenario are reasonable.

Risk description	How the scope of our audit responded to the risk	Key observations
Recoverability of gold in circuit inventory See note 2.14 and the Audit Committee Report on page 84 for further information. There is a risk that the value of the gold in circuit (GIC) inventory held on the Group's balance sheet as at 31 December 2016 is not recoverable. In recent years the amount of GIC has increased both in terms of volume (2016: 91koz; 2015: 75koz) and monetary value (2016: $71 million; 2015: $50 million). This is a result of management experiencing difficulty in extracting the gold from the resin in the processing cycle. Management is implementing countermeasures to resolve this issue as described on page 84 of the Annual Report Management considers its GIC inventory balance to be fully recoverable, subject to the successful implementation of certain countermeasures.	We challenged management's assumption that the GIC is fully recoverable by: – using VenmynDeloitte to assess management's proposed countermeasures and to challenge management to justify the reasonableness of the GIC levels; – meeting with key operational personnel at the POG mines; – analysing operational data to rationalise the movements in GIC at each mine; – inspecting management's GIC sampling procedures and conducting certain additional sample result verifications; – ensuring that the waste dumped into the tailings dams at the mines has a very low average grade to confirm that the GIC is not being lost from the circuit; and – assessing the cost allocation of the GIC and ensured that the inventory is held at the lower of cost and net realisable value in line with IAS 2 Inventories.	Based on our procedures performed we are satisfied with the process for measuring GIC. Management's assessment of the difficulties in extracting the gold from the resin and the proposed countermeasures appear reasonable and we will continue to monitor the effectiveness of management's countermeasures during 2017. Considering the proposed actions by management to access the GIC and information provided to us with regards to the balance as at 31 December 2017 we are satisfied that the balance is recoverable and has been valued appropriately.

Risk description	How the scope of our audit responded to the risk	Key observations
Impairment of property, plant and equipment See note 3.2 and the Audit Committee Report on page 84 for further information. In line with IAS 36 *Impairment of Assets* management assessed at 31 December 2016 whether any internal or external indicators of impairment exist in relation to its property, plant and equipment. Management identified impairment indicators with regards to mining assets and therefore carried out an impairment test. These require significant judgement to be exercised, primarily in regards to the assumed gold price, FX rates, discount rates and Group's production and cost profiles at each of its mines. As referenced in note 3.2 of the financial statements the recoverable value of property, plant and equipment is considered by management to be a key source of estimate uncertainty. The carrying value of property, plant and equipment on the balance sheet as at 31 December 2016 was $952 million, (FY15: $1,038 million). No impairments were recognised during the year. Management has performed an impairment test on all of its cash generating units and concluded that no impairments should be recognised. Management has also concluded that it would not be appropriate to recognise any impairment reversals at this time, despite the headroom at the Pokrovka, Pioneer and Malomir mines, which have previously been impaired.	We challenged management's significant assumptions used in the impairment testing for property, plant and equipment, and specifically the cash flow projections, by: – using VenmynDeloitte to analyse management's long term mining plans which form the basis of their recoverable value models; – considering the work of management's experts in producing the long term mining plans and considering their experience and qualifications; – comparing the discount rates used by management with Deloitte's independent, expert calculations and the long term gold prices assumed with external forecasts; – using our internal valuation specialists to perform an independent assessment of the discount rate used to facilitate benchmarking of management's rate; – assessing management's allocation of the capital costs of the POX project between the cash generating units, for the purposes of the impairment tests; – assessing whether headroom identified at the Group's cash generating units is indicative that a reversal of a previously recognised impairment is required; – reviewing management's accounting paper with consideration of all of the assumptions supporting their conclusion; and – testing capitalised expenditure during the year on a sample basis to assess whether the related costs qualify for capitalisation under the relevant accounting standards. We reviewed the adequacy and accuracy of disclosures and we also evaluated the sensitivity analysis performed by management relating to the impairment review.	Based on our procedures performed ,we are satisfied that the recoverability of the assets has been assessed in accordance with the requirements of IAS 36 *Impairment of Assets* and that no impairments or impairment reversals should be recognised at this time.

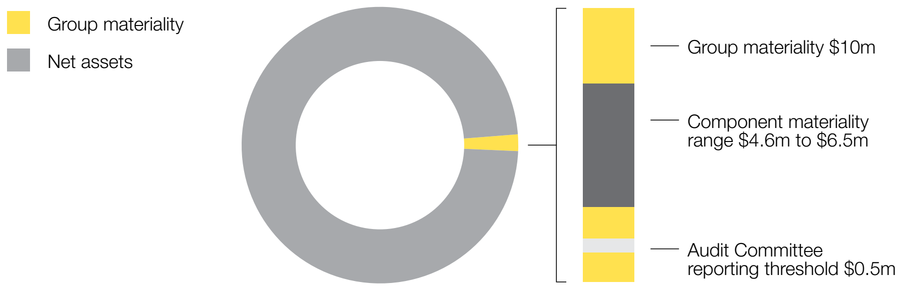
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	$10 million (2015: $12 million)
Basis for determining materiality	Net assets has been used as the base for materiality, consistent with 2015. Our 2016 materiality represents less than 2% of Group net assets.
Rationale for the benchmark applied	The POG net asset value reflects the long term value of the Group in its portfolio of production and development assets and their associated reserves and resources.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $500,000 (2015: $240,000) to align with market practice, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

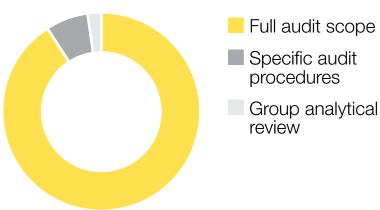


An overview of the scope of our audit
Our Group audit focused primarily on the operating locations, being the four operating mines, 12 service entities, six exploration assets and 19 finance and holding companies. All of the operating mines and service entities were subject to a full audit, whilst the exploration assets were subject to specified audit procedures, primarily testing of the capitalised spend on exploration activities and assessing for impairment. The extent of our audit procedures was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations.

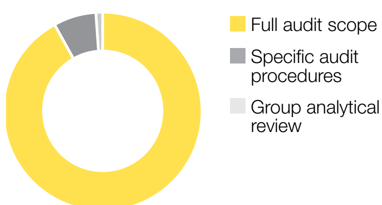
Our audit work at the operating locations was executed at levels of materiality applicable to each individual entity which were lower than our Group materiality and were not more than $6.5 million (2015: $9 million).

These operating locations represent the principal business units within the Group's reportable segments and account for 91% (2015: 89%) of the Group's total assets, 92% (2015: 92%) of the Group's inventory and 99% (2015: 97%) of the Group's revenue. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

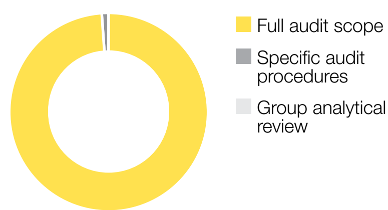
Total assets



Inventory



Revenue



During the audit the Senior Statutory Auditor and senior members of his Group audit team visited Moscow to review the work performed by the Russian component team and the Amur region of Russia to view the Group's assets and hold meetings with senior operational staff. In addition the Senior Statutory Auditor visited Hong Kong to review the work performed by Deloitte Hong Kong on IRC Ltd, an associate of the Group. This is in recognition of the continued importance of IRC Ltd to the POG audit as a result of POG's guarantee of IRC's ICBC debt.

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 the light of the knowledge and understanding of the company 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.	**We have nothing to report arising from these matters.**
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
26 April 2017

Consolidated Income Statement

For the year ended 31 December 2016

	note	2016 US$'000	2015 US$'000
Continuing operations			
Group revenue	5	540,684	599,914
Operating expenses	6	(460,103)	(619,635)
		80,581	(19,721)
Share of results of associates	14	(3,581)	(60,422)
Operating profit/(loss)		77,000	(80,143)
Investment income	9	556	1,018
Interest expense	9	(60,976)	(71,514)
Other finance gains	9	11,976	9,064
Other finance losses	9	(1,548)	–
Profit/(loss) before taxation		27,008	(141,575)
Taxation	10	4,698	(48,879)
Profit/(loss) for the period from continuing operations		31,706	(190,454)
Discontinued operations [(a)]			
Loss for the period from discontinued operations		–	(107,023)
Profit/(loss) for the period		31,706	(297,477)
Attributable to:			
Equity shareholders of Petropavlovsk PLC		33,719	(238,759)
Continuing operations		33,719	(190,155)
Discontinued operations		–	(48,604)
Non-controlling interests		(2,013)	(58,718)
Continuing operations		(2,013)	(299)
Discontinued operations		–	(58,419)
Profit/(loss) per share			
Basic profit/(loss) per share	11		
From continuing operations		US$0.01	(US$0.07)
From discontinued operations		–	(US$0.02)
		US$0.01	(US$0.09)
Diluted profit/(loss) per share	11		
From continuing operations		US$0.01	(US$0.07)
From discontinued operations		–	(US$0.02)
		US$0.01	(US$0.09)

(a) IRC was presented as a discontinued operation in the income statement for the period from 1 January until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 US$'000	2015 US$'000
Profit/(loss) for the period	31,706	(297,477)
Items that may be reclassified subsequently to profit or loss:		
Revaluation of available for sale investments	834	161
Exchange differences:		
Exchange differences on translating foreign operations	2,577	(4,121)
Transfer of foreign currency translation reserve to profit or loss on disposal of a foreign operation	–	2,601
Share of other comprehensive income of associate	560	–
Cash flow hedges:		
Fair value (losses)/gains	(4,940)	7,090
Tax thereon	988	(1,418)
Transfer to revenue	8,494	(9,436)
Tax thereon	(1,699)	1,888
Other comprehensive profit/(loss) for the period net of tax	6,814	(3,235)
Total comprehensive profit/(loss) for the period	38,520	(300,712)
Attributable to:		
Equity shareholders of Petropavlovsk PLC	40,494	(241,916)
Non-controlling interests	(1,974)	(58,796)
	38,520	(300,712)
Total comprehensive profit/(loss) for the period attributable to equity shareholders of Petropavlovsk PLC arises from:		
Continuing operations	40,494	(195,360)
Discontinued operations [(a)]	–	(46,556)
	40,494	(241,916)

(a) IRC was presented as a discontinued operation in the income statement for the period from 1 January 2015 until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

Consolidated Balance Sheet

At 31 December 2016

	note	2016 US$'000	2015 US$'000
Assets			
Non-current assets			
Exploration and evaluation assets	12	49,270	68,993
Property, plant and equipment	13	953,794	1,038,343
Prepayments for property, plant and equipment		694	1,841
Investments in associates	14	36,140	39,394
Available for sale investments		1,105	271
Inventories	15	51,686	51,434
Other non-current assets		2,154	175
		1,094,843	1,200,451
Current assets			
Inventories	15	183,266	175,222
Trade and other receivables	16	89,736	48,096
Derivative financial instruments	18	7,478	3,925
Cash and cash equivalents	17	12,642	28,239
		293,122	255,482
Total assets		1,387,965	1,455,933
Liabilities			
Current liabilities			
Trade and other payables	19	(55,638)	(96,567)
Current income tax payable		(2,288)	(4,748)
Borrowings	20	(85,306)	(260,248)
		(143,232)	(361,563)
Net current assets/(liabilities)		149,890	(106,081)
Non-current liabilities			
Borrowings	20	(525,906)	(378,030)
Derivative financial instruments	18	(10,314)	(14,684)
Deferred tax liabilities	21	(139,728)	(173,499)
Provision for close down and restoration costs	22	(19,152)	(17,184)
		(695,100)	(583,397)
Total liabilities		(838,332)	(944,960)
Net assets		549,633	510,973
Equity			
Share capital	23	48,920	48,874
Share premium		518,142	518,142
Own shares	24	–	(8,933)
Hedging reserve		5,900	3,096
Share based payments reserve		–	280
Other reserves		(17,574)	(20,985)
Retained losses		(22,202)	(47,922)
Equity attributable to the shareholders of Petropavlovsk PLC		533,186	492,552
Non-controlling interests		16,447	18,421
Total equity		549,633	510,973

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 26 April 2017 and signed on their behalf by

Peter Hambro
Director

Andrey Maruta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Total attributable to equity holders of Petropavlovsk PLC										
	Share capital US$'000	Share premium US$'000	Own shares [a] US$'000	Convertible bond Reserve US$'000	Share based payments reserve US$'000	Hedging reserve US$'000	Other reserves [b] US$'000	Retained earnings/ (losses) US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
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)/income	–	–	–	–	–	(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)/income	–	–	–	–	–	(1,851)	(1,306)	–	(3,157)	(78)	(3,235)
Share based payments	–	–	–	–	17	–	–	–	17	–	17
Deferred share awards	–	–	–	–	280	–	–	–	280	–	280
Right issue and settlement of the Existing Bonds	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 [c]	–	–	–	–	(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 [d]	510,973
Total comprehensive income/(loss)	–	–	–	–	–	2,804	3,411	34,279	40,494	(1,974)	38,520
Profit/(loss) for the period	–	–	–	–	–	–	–	33,719	33,719	(2,013)	31,706
Other comprehensive income/(loss)	–	–	–	–	–	2,804	3,411	560	6,775	39	6,814
Deferred share awards	46	–	8,933	–	(280)	–	–	(8,559)	140	–	140
Balance at 31 December 2016	48,920	518,142	–	–	–	5,900	(17,574)	(22,202)	533,186	16,447	549,633

(a) Own shares represented 1,441,406 Ordinary Shares held by the Company's EBT until they were transferred upon vesting of the Deferred Share Award on 1 May 2016.

(b) Including translation reserve of US$(15.6) million, 31 December 2015: US$(18.2) million).

(c) IRC Limited ('IRC') (note 14).

(d) IRC was the only non-wholly owned subsidiary of the Group that had a material non-controlling interest (note 14).

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	note	2016 US$'000	2015 [a] US$'000
Cash flows from operating activities			
Cash generated from operations	25	126,013	208,841
Interest paid		(53,708)	(72,174)
Income tax paid		(35,305)	(33,287)
Net cash from operating activities		37,000	103,380
Cash flows from investing activities			
Proceeds from disposal of subsidiaries, net of cash disposed and liabilities settled	27	19,188	6,485
Proceeds from disposal of the Group's interests in associates	14	231	1,000
Purchase of property, plant and equipment		(12,770)	(58,804) [b]
Exploration expenditure		(16,590)	(18,854) [b]
Proceeds from disposal of property, plant and equipment		742	847
Loans granted		–	(47)
Repayment of amounts loaned to other parties		1	42
Interest received		540	2,183
Dividends received from joint venture		–	917
Net cash used in investing activities		(8,658)	(66,231)
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
Proceeds from borrowings		295,250 [c]	82,885 [d]
Repayments of borrowings		(322,221) [c]	(304,178) [d]
Debt transaction costs paid in connection with bank loans		(4,031)	(1,896)
Debt transaction costs paid in connection with ICBC facility		–	(72)
Restricted bank deposit placed in connection with ICBC facility		–	(1,000)
Refinancing costs			(34,418)
Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development	32	30,771	15,093
Funds transferred under investment agreement with the Russian Ministry of Far East Development	32	(47,665)	–
Guarantee fee in connection with ICBC facility		1,126	2,169
Dividends paid to non-controlling interests		–	(536)
Purchase of own shares		–	(8)
Net cash used in financing activities		(46,770)	(36,364)
Net (decrease)/increase in cash and cash equivalents in the period		(18,428)	785
Effect of exchange rates on cash and cash equivalents		2,831	(5,270)
Cash and cash equivalents at beginning of period	17	28,239	48,080
Cash and cash equivalents re classified as assets held for sale at beginning of the period		–	55,459
Cash and cash equivalents re classified as assets held for sale at disposal		–	(70,815)
Cash and cash equivalents at end of period	17	12,642	28,239

(a) IRC was presented as a discontinued operation in the income statement for the period from 1 January until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

(b) Including US$45.1 million related to discontinued operations for the year ended 31 December 2015.

(c) Including US$295.25 million in connection to bank debt refinancing (note 20).

(d) Including US$62.5 million proceeds from borrowings and US$36.2 million repayments of borrowings for the year ended 31 December 2015 related to discontinued operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 prepared regularly based on a number of inputs including, but not limited to, forecast commodity prices and impact of hedging arrangements, the Group's 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 2016 Annual Report and Accounts. As at 31 December 2016, the Group had sufficient liquidity headroom and complied with related financial covenants. Following the successful completion of the Bank Debt Refinancing, the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to May 2018 and expects to comply with related financial covenants. In the meantime, the Group's projections under a reasonable downside scenario indicate that, unless mitigating actions can be taken including accessing deposits not currently in the Group's mining plan, there will be insufficient liquidity and non-compliance with certain financial covenants under a reasonable downside scenario for the relevant period to May 2018. If a missed debt repayment occurs or financial covenant requirements are not met, 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 Directors are confident that, should it be required, relevant mitigating actions could be successfully implemented.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$234 million as at 31 December 2016. 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. IRC has agreed with ICBC to restructure and reschedule two repayment instalments under the ICBC Facility Agreement, which are originally due for payment on 20 June 2017 and 20 December 2017, with next repayment instalment due on 20 June 2018. IRC also obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive).

Having taken into account the aforementioned factors, and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation 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 2016 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

2.2. Adoption of new and revised standards and interpretations

New and revised standards and interpretations adopted for the current reporting period

The following new and revised Standards and Interpretations that were effective for annual periods beginning on or after 1 January 2016 and applicable to the Group have been adopted:

- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation';
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- Annual improvements to IFRSs: 2012-2014 Cycle

These standards, amendments, and interpretations have not had a significant impact on amounts reported, presentation or disclosure in these consolidated financial statements.

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 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):

- *IFRS 9 'Financial instruments':*

  The standard addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard is effective for annual periods beginning in or after 1 January 2018.

  Classification and measurement: IFRS 9 establishes a principles based approach to determining whether a financial asset should be measured at amortised cost or fair value, based on the cash flow characteristics of the asset and the business model in which the asset is held. The Group anticipates that the classification and measurement basis for its financial assets will be largely unchanged under this model.

Impairment: The new impairment model requires the recognition of impairment provision based on expected credit losses rather than only incurred credit losses. While the Group has not yet undertaken a detailed assessment of how its impairment provision will be affected by the new model, it may result in an earlier recognition of credit losses.

Hedge accounting: The adoption of the new standard would not materially change the amounts recognised in relation to existing hedging arrangements but could provide scope to apply hedge accounting to a broader range of transactions in the future.

– *IFRS 15 'Revenue from contracts with customers'*

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations and is effective for annual periods beginning in or after 1 January 2018.

The new standard is based on the principal that revenue is recognised when control of a good or service is transferred to a customer.

The Group's revenue is predominantly derived from gold sales, where the point of recognition is dependent on the contract sales terms. As the transfer of risks and rewards generally coincides with the transfer of control at a point in time, the timing and amount of revenue recognised for the sale of gold is unlikely to be materially affected.

– *IFRS 16 'Leases'*

The standard replaces IAS 17 'Accounting for Leases' and related interpretations and is effective for annual periods beginning in or after 1 January 2019.

The standard will affect primarily the change the accounting treatment by lessees of leases currently classified as operating leases. Lease agreements will give rise to the recognition by the lessee of an asset, representing the right to use the leased item, and a related liability for future lease payments. Lease costs will be recognised in the income statement in the form of depreciation of the right of use asset over the lease term, and finance charges representing the unwind of the discount on the lease liability. The accounting for lessors will not significantly change.

As at the reporting date, the Group has non-cancellable operating lease commitments (note 31). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. Based on the volume of lease arrangements, the Group's assets and liabilities and profit are unlikely to be materially affected.

There are no other standards and amendments that are not yet effective and would be expected to have a significant impact on the Group's financial statements.

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

– 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

– 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. 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 2016	Average year ended 31 December 2016	As at 31 December 2015	Average year ended 31 December 2015
GB Pounds Sterling (GBP : US$)	0.81	0.74	0.68	0.65
Russian Rouble (RUB : US$)	60.66	67.18	72.88	61.30

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.

2.7. 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.

2.8. 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, 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 3.2. 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.

2.9. 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)
- 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 post-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.

2.10. 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.

2.11. 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.

2.12. 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 within Other reserves 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.

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 other finance gains or losses 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
- 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.

2.13. 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.

2.14. Inventories
Inventories include the following major categories:

- stores and spares represent raw materials consumed in the production process as well as spare parts and other maintenance supplies
- construction materials represent materials for use in capital construction and mine development
- ore in stockpiles represent material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore in stockpiles is valued at the average cost per tonne of mining and stockpiling the ore. Quantities of ore in stockpiles ore are assessed through surveys and assays. Ore in stockpiles is classified between current and non-current inventory based on the expected processing schedule in accordance with the Group's mining plan
- work in progress inventory primarily represents gold in processing circuit that has not completed the production process. Work in progress inventory is valued at the average production costs
- deferred stripping costs are included in inventories where appropriate, as set out in note 2.10.

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.

2.15. 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.

2.16. 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 as specified in individual contracts 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
- it is probable that the economic benefits associated with the transaction will flow to the Group.

Other revenue
Other revenue is recognised as follows:

- Engineering and construction contracts: When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. When it is probable that contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately
- 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
- Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2.17. 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.

2.18. 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
- 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.

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.

3.1. Critical accounting judgements

Taxation

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.

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 deferred tax disclosures out in note 21.

3.2. Key sources of estimation uncertainty

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)
- 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.

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.

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.

Impairment and impairment reversals
The Group reviews the carrying values of its tangible and exploration and evaluation assets to determine whether there is any indication that those assets are impaired.

The recoverable amount of an asset, or cash generating unit ('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 reversals are set out in note 6.

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.

4. Segment information
The Group's reportable segments under IFRS 8, which are aligned with its operating locations, were determined to be Pokrovskiy, Pioneer, Malomir and Albyn hard rock gold mines which are engaged in gold and silver production as well as field exploration and mine development.

Alluvial operations segment comprised an alluvial gold operation which was engaged in gold production and field exploration. This operation was disposed of on 22 April 2015 and, accordingly, alluvial operations are no longer a reportable segment.

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

2016	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Consolidated US$'000
Revenue						
Gold [(a)]	163,514	46,692	67,107	211,155	–	488,468
Silver	958	275	101	207	–	1,541
Other external revenue	–	–	–	–	50,675	50,675
Inter segment revenue	–	–	1,233	390	101,032	102,655
Intra group eliminations	–	–	(1,233)	(390)	(101,032)	(102,655)
Total Group revenue from external customers	164,472	46,967	67,208	211,362	50,675	540,684
Operating expenses and income						
Operating cash costs	(85,273)	(33,777)	(45,243)	(100,979)	(48,995)	(314,267)
Depreciation	(38,776)	(6,586)	(13,632)	(45,729)	(529)	(105,252)
Central administration expenses	–	–	–	–	(32,623)	(32,623)
Impairment of exploration and evaluation assets	–	–	–	(9,155)	–	(9,155)
(Impairment)/reversal of impairment of ore stockpiles	(6,110)	(1,002)	5,826	123	–	(1,163)
Gain on disposal of non-trading loans	–	–	–	–	6,724	6,724
Gain on disposal of subsidiaries	–	–	–	–	791	791
Total operating expenses [(b)]	(130,159)	(41,365)	(53,049)	(155,740)	(74,632)	(454,945)
Share of results of associates	–	–	–	–	(3,581)	(3,581)
Segment result	34,313	5,602	14,159	55,622	(27,538)	82,158
Foreign exchange losses						(5,158)
Operating profit						77,000
Investment income						556
Interest expense						(60,976)
Other finance gains						11,976
Other finance losses						(1,548)
Taxation						4,698
Profit for the period from continuing operations						31,706
Segment assets	444,611	19,724	402,878	390,646	124,665	1,382,524
Segment liabilities	(13,387)	(4,034)	(8,963)	(15,975)	(45,033)	(87,392)
Deferred tax – net						(139,728)
Unallocated cash						4,843
Loans given						598
Borrowings						(611,212)
Net assets						549,633
Other segment information						
Additions to non-current assets:						
Exploration and evaluation expenditure capitalised within intangible assets	2,219	–	838	4,082	217	7,356
Other additions to intangible assets	–	–	–	–	–	–
Capital expenditure	14,052	96	2,765	7,488	1,380	25,781
Other items capitalised [(c)]	349	177	389	1,262	–	2,177
Average number of employees	1,658	964	926	1,450	3,066	8,064

(a) Including US$(8.5) million net cash settlement paid by the Group under the cash flow hedge.

(b) Operating expenses less foreign exchange losses (note 6).

(c) Close down and restoration costs (note 13).

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 [d]	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)
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)
Loss on disposal of subsidiaries	–	–	–	–	(384)	–	(384)
Total operating expenses [e]	(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 [f]	(1,350)	(61)	(836)	(1,999)	–	–	(4,246)
Average number of employees	1,760	989	937	1,510	–	3,273	8,469

(d) Including US$9.4 million contribution from the cash flow hedge.

(e) Operating expenses less foreign exchange losses (note 6).

(f) Close down and restoration costs (note 13).

4. Segment information continued

Entity wide disclosures

Revenue by geographical location [(a)]

	2016 US$'000	2015 US$'000
Russia and CIS	540,606	599,686
Other	78	228
	540,684	599,914

(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)]

	2016 US$'000	2015 US$'000
Russia	1,091,541	1,199,941
Other	43	64
	1,091,584	1,200,005

(b) Excluding financial instruments and deferred tax assets.

Information about major customers
During the years ended 31 December 2016 and 2015, 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 2016 are revenues of US$488 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$292 million to Sberbank of Russia and US$197 million to VTB (2015: 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). The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management considers there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

5. Revenue

Continuing operations

	2016 US$'000	2015 US$'000
Sales of goods	522,491	585,643
Engineering and construction contracts	17,531	13,515
Rental income	662	756
	540,684	599,914
Investment income	556	1,018
	541,240	600,932

Discontinued operations

	2016 US$'000	Period to 7 August 2015 US$'000
Sales of goods	–	49,180
Engineering contracts	–	1,102
	–	50,282
Investment income	–	1,163
	–	51,445

6. Operating expenses and income

	2016 US$'000	2015 US$'000
Net operating expenses [a]	419,519	522,013
Impairment of exploration and evaluation assets	9,155	37,442
Impairment of ore stockpiles [a]	1,163	17,425
Central administration expenses [a]	32,623	30,419
Foreign exchange losses	5,158	11,952
Gain on disposal of non-trading loans	(6,724)	–
(Gain)/loss on disposal of subsidiaries [b]	(791)	384
	460,103	619,635

(a) As set out below.

(b) Note 27.

Net operating expenses

	2016 US$'000	2015 US$'000
Depreciation	105,252	129,104
Staff costs	63,022	70,632
Materials	100,638	131,914
Fuel	40,621	55,835
External services	25,619	29,004
Mining tax	14,713	33,138
Electricity	23,305	25,008
Smelting and transportation costs	699	1,079
Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production	(22,475)	(11,777)
Taxes other than income	6,352	7,928
Insurance	6,409	7,244
Professional fees	877	554
Office costs	324	304
Operating lease rentals	3,173	645
Business travel expenses	1,434	1,541
Provision for impairment of trade and other receivables	282	1,261
Bank charges	205	855
Goods for resale	24,186	12,816
Other operating expenses	25,231	24,514
Other (income)/expenses	(348)	414
	419,519	522,013

6. Operating expenses and income continued

Central administration expenses

	2016 US$'000	2015 US$'000
Staff costs	17,067	18,908
Professional fees	8,214	2,040
Insurance	789	1,191
Operating lease rentals	1,893	1,900
Business travel expenses	881	1,611
Office costs	489	544
Other	3,290	4,225
	32,623	30,419

Impairment charges

Impairment of mining assets and exploration and evaluation assets

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and supporting in house service companies and concluded no impairment was required as at 31 December 2016, with exception of an individual licence impairment referred to below.

The forecast future cash flows are based on the Group's mining plan that assumes POX Hub completion in the year 2018. 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 2016	Year ended 31 December 2015
Long term gold price	US$1,200/oz	US$1,150/oz
Discount rate [(a)]	8%	8%
RUR/US$ exchange rate	RUB60.0/US$	RUB65.0/US$

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 10.1% (2015: 10.1%)

Following the decision to suspend exploration on the Kharginskoye ore field, an immediate extension of the Albyn deposit, and to surrender the licence, a US$9.2 million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets.

As at 31 December 2016, all exploration and evaluation assets on the balance sheet related to the areas adjacent to the existing mines.

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 2016			Year ended 31 December 2015		
	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	1,002	(200)	802	(884)	177	(707)
Pioneer	6,110	(1,223)	4,887	11,945	(2,390)	9,555
Malomir	(5,826)	1,165	(4,661)	6,065	(1,213)	4,852
Albyn	(123)	25	(98)	299	(60)	239
	1,163	(233)	930	17,425	(3,486)	13,939

7. Auditor's remuneration

The Group, including its overseas subsidiaries, obtained the following services from the Company's auditor and their associates:

	2016 US$'000	2015 US$'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	577	611
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	285	269
For the audit of subsidiary statutory accounts pursuant to legislation [(a)]	55	77
	917	957
Non-audit fees		
Other services pursuant to legislation – interim review	185	342
Fees for reporting accountants services [(b)]	1,153	231
Tax services	–	45
	1,338	618

(a) Including the statutory audit of subsidiaries in the UK and Cyprus.

(b) Fees payable in relation to the Proposed Acquisition announced on 28 April 2016 (2015: Fees payable in relation to the Refinancing).

8. Staff costs

Continuing operations

	2016 US$'000	2015 US$'000
Wages and salaries	61,996	69,806
Social security costs	17,732	19,235
Pension costs	221	219
Share based compensation	140	280
	80,089	89,540
Average number of employees	8,064	8,469

Discontinued operations

	2016 US$'000	Period to 7 August 2015 US$'000
Wages and salaries	–	12,613
Social security costs	–	3,287
Pension costs	–	158
Share based compensation	–	17
	–	16,075
Average number of employees	–	1,752

9. Financial income and expenses

	2016 US$'000	2015 US$'000
Investment income		
Interest income	556	1,018
	556	1,018
Interest expense		
Interest on bank loans	(48,934)	(57,731)
Interest on convertible bonds	(11,867)	(13,570)
	(60,801)	(71,301)
Unwinding of discount on environmental obligation	(175)	(213)
	(60,976)	(71,514)
Other finance gains		
Gain on settlement of the Existing Bonds	–	478
Fair value gain on derivative financial instruments [(a)]	7,434	6,417
Financial guarantee fee [(b)]	4,542	2,169
	11,976	9,064
Other finance losses		
Loss on bank debt refinancing [(c)]	(1,548)	–
	(1,548)	–

(a) Result from re measurement of the conversion option of the Convertible Bonds to fair value (note 20).
(b) Note 26.
(c) Note 20.

10. Taxation

	2016 US$'000	2015 US$'000
Current tax		
Russian current tax	29,788	31,752
	29,788	31,752
Deferred tax		
(Reversal)/origination of timing differences [a]	(34,486)	17,127
Total tax (credit)/charge	(4,698)	48,879

(a) Including effect of foreign exchange movements in respect of deductible temporary differences of US$(26.0) million (year ended 31 December 2015: US$40.3 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 Dollar 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:

	2016 US$'000	2015 US$'000
Profit/(loss) before tax from continuing operations	27,008	(141,575)
Less: share of results of associates	3,581	60,422
Profit/(loss) before tax from continuing operations (excluding associates)	30,589	(81,153)
Tax on profit/loss from continuing operations (excluding associates) at the Russian corporation tax rate of 20% (2015: 20%)	6,118	(16,231)
Effect of different tax rates of subsidiaries operating in other jurisdictions	36	(1,446)
Tax effect of expenses that are not deductible for tax purposes	1,765	9,674
Tax effect of tax losses for which no deferred income tax asset was recognised [b]	14,778	26,583
Utilisation of previously unrecognised tax losses	(2,574)	(767)
Foreign exchange movements in respect of deductible temporary differences [c]	(26,025)	40,305
Other adjustments	1,204	(9,239)
Tax (credit)/charge for the period	(4,698)	48,879

(b) Primarily relate to central administration expenses and interest expense incurred in the UK.

(c) Foreign exchange movements arise 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 Dollar carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

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

	2016 US$'000	2015 US$'000
Profit/(loss) for the period attributable to equity holders of Petropavlovsk PLC	33,719	(238,759)
From continuing operations	33,719	(190,155)
From discontinued operations	–	(48,604)
Interest expense on convertible bonds, net of tax [a]	–	–
Profit/(loss) used to determine diluted earnings per share	33,719	(238,759)
From continuing operations	33,719	(190,155)
From discontinued operations	–	(48,604)
	No of shares	No of shares
Weighted average number of Ordinary Shares	3,302,148,536	2,657,332,030
Adjustments for dilutive potential Ordinary Shares [a]	–	–[b]
Weighted average number of Ordinary Shares for diluted earnings per share	3,302,148,536	2,657,332,030
	US$	US$
Basic profit/(loss) per share	0.01	(0.09)
From continuing operations	0.01	(0.07)
From discontinued operations	–	(0.02)
Diluted profit/(loss) per share	0.01	(0.09)
From continuing operations	0.01	(0.07)
From discontinued operations	–	(0.02)

(a) *Convertible bonds which could potentially dilute basic profit/(loss) per ordinary share in the future are not included in the calculation of diluted profit/(loss) per share because they were anti-dilutive for the year ended 31 December 2016 and 2015.*

(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.*

12. Exploration and evaluation assets

	Visokoye US$'000	Flanks of Pokrovskiy US$'000	Flanks of Albyn US$'000	Other [a] US$'000	Total US$'000
At 1 January 2016	16,251	2,287	39,080	11,375	68,993
Additions	213	2,285	4,082	776	7,356
Impairment [b]	–	–	(9,155)	–	(9,155)
Reallocation and other transfers	–	(269)	(58)	(3)	(330)
Disposal of subsidiary [c]	(16,464)	–	–	–	(16,464)
Disposal	–	(1,130)	–	–	(1,130)
At 31 December 2016	–	3,173	33,949	12,148	49,270

(a) *Represent amounts capitalised in respect of a number of projects in the Amur Region.*

(b) *Note 6.*

(c) *Note 27.*

	Visokoye US$'000	Flanks of Pokrovskiy US$'000	Flanks of Albyn US$'000	Other [d] US$'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 [e]	(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

(d) *Represent amounts capitalised in respect of a number of projects in the Amur Region and Guyana.*

(e) *Note 6.*

13. Property, plant and equipment

	Mining assets US$'000	Non-mining assets US$'000	Capital construction in progress [b] (US$'000	Total US$'000
Cost				
At 1 January 2015	1,846,753	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 [a]	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	1,861,891	197,698	341,587	2,401,176
Additions	19,470	885	5,426	25,781
Close down and restoration cost capitalised (note 22)	2,177	–	–	2,177
Transfers from capital construction in progress [a]	2,523	159	(2,682)	–
Disposals	(19,645)	(6,235)	(77)	(25,957)
Disposal of subsidiaries	(919)	(2,052)	(2,436)	(5,407)
Reallocation and other transfers	9,844	(808)	(8,856)	180
Foreign exchange differences	–	3,907	–	3,907
At 31 December 2016	1,875,341	193,554	332,962	2,401,857
Accumulated depreciation and impairment				
At 1 January 2015	1,066,050	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	1,182,974	173,375	6,484	1,362,833
Charge for the year	100,934	5,034	–	105,968
Disposals	(16,748)	(6,036)	–	(22,784)
Disposal of subsidiaries	–	(1,127)	–	(1,127)
Reallocation and other transfers	662	(662)	–	–
Foreign exchange differences	–	3,173	–	3,173
At 31 December 2016	1,267,822	173,757	6,484	1,448,063
Net book value				
At 31 December 2015 [c]	678,917	24,323	335,103	1,038,343
At 31 December 2016 [c]	607,519	19,797	326,478	953,794

(a) Being costs primarily associated with continuous development of Malomir, Albyn and Pioneer projects.

(b) Including US$200.3 million costs associated with the POX Hub project (31 December 2015: US$197.4 million)

(c) Property, plant and equipment with a net book value of US$110.0 million (31 December 2015: US$125.6 million) have been pledged to secure borrowings of the Group.

14. Investments in associates

	2016 US$'000	2015 US$'000
IRC Limited ('IRC')	36,140	39,163
JSC Verkhnetisskaya Ore Mining Company [a]	–	231
	36,140	39,394

(a) On 27 May 2016 the Group sold its 49% interest in CJSC Verkhnetisskaya Ore Mining Company (note 27).

Summarised financial information for those associates that are material to the Group is set out below.

	IRC Year ended 31 December 2016 US$'000	IRC Year ended 31 December 2015 US$'000
Non-current assets		
Exploration and evaluation assets	6,966	6,717
Property, plant and equipment	246,191	199,714
Prepayments for property, plant and equipment	87,499	88,859
Other non-current assets	4,773	2,277
	345,429	297,567
Current assets		
Cash and cash equivalents	31,342	56,144
Other current assets	44,184	55,038
	75,526	111,182
Current liabilities		
Borrowings [a]	66,147	53,050
Other current liabilities	21,414	18,398
	87,561	71,448
Non-current liabilities		
Borrowings [a]	177,239	215,238
Other non-current liabilities	34,431	12,773
	211,670	228,011
Net assets	121,724	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 (note 26) and originally was repayable semi annually in 16 instalments US$21.25 million each, starting from December 2014 and is fully repayable by June 2022. ICBC has agreed to restructure two repayment instalments originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US$42.5 million evenly into five subsequent semi annual repayment instalments as such each of the repayment instalment due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 is increased by US$8.5 million to an amount equal to US$42.5 million. The outstanding loan principal was US$233.75 million as at 31 December 2016 (31 December 2015: US$276.25 million).The loan is carried at amortised cost with effective interest rate at 6.13% per annum (2015: 5.91%). As at 31 December 2015, US$2.1 million was deposited in a debt service reserve accounts ('DSRA') with ICBC under a security deposit agreement related to the ICBC Facility Agreement. In January 2016, IRC placed US$28.3 million in order to replenish the DSRA level pursuant to the security deposit agreement. In accordance with the waiver and consent letter dated 19 April 2016, which conditions precedent were satisfied on 21 June 2016, ICBC waived the restriction on withdrawing from the DSRA for the repayment of the ICBC loan and related interest and the requirement of IRC to maintain the DSRA until 30 June 2018. Accordingly, balance of US$1.98 million remained in the DSRA as at 31 December 2016 without replenishment. ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2017, inclusive. As at 31 December 2016, The Group's entire 31.1% ownership in the issued capital of IRC was pledged to ICBC as security for the obligations of the Company as guarantor and in consideration for the waiver of financial covenants under the ICBC facility (31 December 2015: 521,376,470 ordinary shares (approximately 8.47%) in the issued capital of IRC were pledged to ICBC).

14. Investments in associates continued

	IRC Year ended 31 December 2016 US$'000	IRC Period from 7 August to 31 December 2015 US$'000
Revenue	16,467	31,627
Net operating expenses	(34,503)	(199,081)
including		
Depreciation	(1,155)	(371)
Impairment of mining assets	–	(138,623)
Impairment of exploration and evaluation assets	–	(4,475)
Impairment of ore stockpiles	(841)	(7,492)
Impairment of investments in joint ventures	(47)	(5,895)
Foreign exchange losses	(3,440)	(1,075)
Investment income	413	295
Interest expense	(1,189)	(683)
Taxation	(315)	(774)
Loss for the period	(19,127)	(168,616)
Other comprehensive profit/(loss)	1,555	(1,740)
Total comprehensive loss	(17,572)	(170,356)

Following issue of shares by IRC in December 2016 and dilution of Group's interest in IRC (note 35), the Group recognised US$3.3 million gain on deemed disposal on 4.73% interest in IRC.

15. Inventories

	2016 US$'000	2015 US$'000
Current		
Construction materials	5,072	6,952
Stores and spares	57,699	66,534
Ore in stockpiles [(a), (c)]	17,104	17,249
Work in progress	72,782	53,579
Deferred stripping costs	26,187	17,981
Bullion in process	1,189	1,212
Other	3,233	11,715
	183,266	175,222
Non-current		
Ore in stockpiles [(a), (b), (c)]	51,686	51,434
	51,686	51,434

(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 2016, ore in stockpiles include balances in the aggregate of US$45.5 million carried at net realisable value (2015: US$63.1 million).

16. Trade and other receivables

	2016 US$'000	2015 US$'000
Current		
VAT recoverable	30,265	31,489
Advances to suppliers	11,394	3,320
Trade receivables [a]	6,160	4,018
Other debtors [b]	41,917	9,269
	89,736	48,096

(a) Net of provision for impairment of US$0.2 million (2015: US$0.4 million). Trade receivables are generally due for settlement between three and twelve months.

(b) Net of provision for impairment of US$1.3 million (2015: US$1.2 million).

There is no significant concentration of credit risk with respect to trade and other receivables. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by the Board of Directors. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

17. Cash and cash equivalents

	2016 US$'000	2015 US$'000
Cash at bank and in hand	10,284	22,144 [a]
Short term bank deposits	2,358	6,095
	12,642	28,239

(a) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 32).

18. Derivative financial instruments

	31 December 2016		31 December 2015	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Forward gold contracts – cash flow hedge [(a), (b), (c)]	7,478	–	3,925	–
Call Option over the Company's shares	–	(3,064)	–	–
Conversion option [(d), (e)]	–	(7,250)	–	(14,684)
	7,478	(10,314)	3,925	(14,684)

(a) Forward contracts to sell an aggregate of 50,006 ounces of gold at an average price of US$1,303 per ounce are outstanding as at 31 December 2016 (31 December 2015: 71,551 ounces of gold at an average price of US$1,116 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) 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 2016 and 2015.

(d) Note 20.

(e) 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

	2016 US$'000	2015 US$'000
Trade payables	25,068	44,263
Advances from customers	2,148	569
Advances received on resale and commission contracts [(a)]	1,847	12,770
Accruals and other payables	26,575	38,965 [(b)]
	55,638	96,567

(a) Amounts included in advances received on resale and commission contracts at 31 December 2016 and 31 December 2015 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 32).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

20. Borrowings

	2016 US$'000	2015 US$'000
Borrowings at amortised cost		
Convertible bonds [(a)]	88,369	85,503
Bank loans [(b), (c)]	522,843	552,775
	611,212	638,278
Amount due for settlement within 12 months	85,306 [(c)]	260,248
Amount due for settlement after 12 months	525,906	378,030
	611,212	638,278

(a) *Liability component of the US$100 million Convertible Bonds due on 18 March 2020, measured at amortised cost. The interest charged was calculated by applying an effective interest rate of 13.89% to the liability component.*

The liability component of the Convertible Bonds was arrived at as set out below.

	18 March 2015 US$'000
Par value of the Convertible Bonds	100,000
Fair value uplift of the Convertible Bonds	9,400
Less: Refinancing costs	(5,130)
Less: Conversion option of the Convertible Bonds recognised separately	(21,100)
Liability component of the Convertible Bonds	83,170

The conversion option of the Convertible 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.

As at 31 December 2016, the fair value of debt component of the convertible bonds, considered as Level 2 of the fair value hierarchy, amounted to US$97.3 million (31 December 2015: US$92.8 million). Valuation incorporates the following inputs: the Group's credit risk, time to maturity and risk free rate.

As at 31 December 2016, 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 US$103.9 million (31 December 2015: US$106.3 million).

(b) *In December 2016, the Group refinanced US$430 million outstanding principal of the Group's US$530 million bank debt, including a revised maturity profile and renegotiation of the financial and operational covenants:*

	December 2016 US$' 000
Carrying value of liabilities de recognised	428,246
Fair value of new liabilities recognised:	
Bank debt	426,730
Call option over the Company's shares	3,064
Loss on bank debt refinancing	(1,548)

Cash settled call option was issued in relation to 3.6 per cent. of the outstanding aggregate ordinary share capital in the Company and is exercisable between December 2019 and March 2023 at strike price of £0.068.

Transaction costs of US$4.9 million were further capitalised.

(c) *As at 31 December 2016, US$233.1 million (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 subsidiaries held by Petropavlovsk PLC: 100% of LLC Albynskiy Rudnik; 89.73% of LLC Malomirskiy Rudnik; 100% of LLC Temi.*

The weighted average interest rate paid during the year ended 31 December 2016 was 9.0% (2015: 9.1%).

The carrying value of the bank loans approximated their fair value at each period end.

As at 31 December 2016, bank loans with an aggregate carrying value of US$522.8 million (2015: US$552.8 million) contain certain financial covenants.

As at 31 December 2016, the amounts undrawn under the bank loans were US$ nil (2015: US$ nil).

The Group is currently completing the final documentation for the remaining US$100 million bank debt. Included in the amounts due for settlement within 12 months are US$75 million, based on facility terms that existed as at 31 December 2016.

21. Deferred taxation

	2016 US$'000	2015 US$'000
At 1 January	173,499	156,814
Deferred tax (credited)/charged to income statement[(a)]	(34,486)	17,127
Deferred tax charged/(credited) to equity	711	(469)
Transfer to liabilities associated with assets classified as held for sale	–	28
Exchange differences	4	(1)
At 31 December	139,728	173,499
Deferred tax assets	–	–
Deferred tax liabilities	(139,728)	(173,499)
Net deferred tax liability	(139,728)	(173,499)

(a) Note 10.

	At 1 January 2016 US$'000	Charged/ (credited) to the income statement US$'000	Credited directly to equity US$'000	Exchange differences US$'000	At 31 December 2016 US$'000
Property, plant and equipment	143,374	(24,979)	–	45	118,440
Inventory	16,451	(6,477)	–	–	9,974
Exploration and evaluation assets	2,996	(215)	–	–	2,781
Fair value adjustments	246	(117)	–	45	129
Other temporary differences	10,432	(2,698)	711	(41)	8,404
	173,499	(34,486)	711	4	139,728

	At 1 January 2015 US$'000	Charged/ (credited) to the income statement US$'000	Credited directly to equity US$'000	Transfer to liabilities associated with assets classified as held for sale US$'000	Exchange differences US$'000	At 31 December 2015 US$'000
Property, plant and equipment	123,344	19,957	–	147	(74)	143,374
Inventory	21,906	(5,367)	–	(88)	–	16,451
Exploration and evaluation assets	3,529	(515)	–	(18)	–	2,996
Fair value adjustments	409	(120)	–	(43)	–	246
Other temporary differences	7,626	3,172	(469)	30	73	10,432
	156,814	17,127	(469)	28	(1)	173,499

As at 31 December 2016, the Group did not recognise deferred tax assets in respect of the accumulated tax losses from continuing operations comprising US$620.2 million that can be carried forward against future taxable income (2015: US$528.9 million). Tax losses of US$484.0 million arise primarily in the UK and can be carried forward indefinitely and tax losses of US$136.2million arise in Russia and expire primarily between 2020 and 2026.

As at 31 December 2016, the Group did not recognise deferred tax assets of US$0.01 million (2015: US$3.1 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 2016, statutory unremitted earnings from continuing operations comprised in aggregate US$839.4 million (2015: US$597.0 million).

22. Provision for close down and restoration costs

	2016 US$'000	2015 US$'000
At 1 January	17,184	21,217
Unwinding of discount	175	213
Change in estimates [(a)]	2,177	(4,246)
Disposal of subsidiary	(384)	–
At 31 December	19,152	17,184

(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 subsequent appreciation the Russian Rouble during the year ended 31 December 2016.

The Group recognised provisions in relation to close down and restoration costs for the following mining operations:

	2016 US$'000	2015 US$'000
Pokrovskiy	2,842	2,646
Pioneer	3,155	2,754
Malomir	6,049	5,610
Albyn	7,106	5,790
Yamal	–	384
	19,152	17,184

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 2018 and 2032, varying from mine site to mine site.

23. Share capital

	2016		2015	
	No of shares	US$'000	No of shares	US$'000
Allotted, called up and fully paid				
At 1 January	3,300,561,697	48,874	197,638,425	3,041
Issued during the period	3,206,835	46	3,102,923,272	45,833
At 31 December	3,303,768,532	48,920	3,300,561,697	48,874

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

	2016 US$'000	2015 US$'000
At 1 January	8,933	8,925
New shares transferred to the EBT	46	–
Vesting Deferred shares award	(8,979)	–
Rights issue	–	8
At 31 December	–	8,933 [(a)]

(a) 1,441,406 Ordinary Shares held by the Company's EBT.

25. Notes to the cash flow statement

Reconciliation of profit/(loss) before tax to operating cash flow

	2016 US$'000	2015 US$'000
Profit/(loss) before tax including discontinued operations	27,008	(248,179)
Adjustments for:		
Share of results of joint ventures	–	(588)
Share of results of associate	3,581	60,422
Investment income	(556)	(4,351)
Other finance gains	(11,976)	(6,894)
Other finance losses	1,548	–
Interest expense	60,976	72,703
Share based payments	140	297
Depreciation	105,252	121,599
Impairment of exploration and evaluation assets	9,155	37,442
Impairment of ore stockpiles	1,163	17,425
Effect of processing previously impaired stockpiles	(7,536)	(8,535)
Provision for impairment of trade and other receivables	282	1,264
Write down to adjust the carrying value of IRC's net assets to fair value less costs to sell	–	96,639
Loss on disposals of property, plant and equipment	2,431	1,090
(Gain)/loss on disposal of subsidiaries	(791)	384
Foreign exchange losses	5,158	15,237
Gain on disposal of non-trading loans	(6,724)	–
Other non-cash items	177	5,337
Changes in working capital:		
(Increase)/ decrease in trade and other receivables	(25,828)	3,621
Decrease in inventories	298	22,675
(Increase)/ decrease in trade and other payables	(37,745)	21,253
Net cash generated from operations	126,013	208,841

Non-cash transactions

Except for the issue of the Ordinary Shares in exchange for the Existing Bonds, there have been no significant non-cash transactions during the year ended 31 December 2015.

There were no significant non-cash transactions during the year ended 31 December 2016.

26. Related parties

Related parties the Group entered into transactions with during the reporting period
PJSC Asian-Pacific Bank ('Asian-Pacific Bank') and LLC Insurance Company Helios Reserve ('Helios') are considered to be related parties as members of key management have an interest in and collectively exercise significant influence over these entities.

The Petropavlovsk Foundation for Social Investment (the 'Petropavlovsk Foundation') is considered to be a related party due to the participation of the key management of the Group in the governing board of the Petropavlovsk Foundation and their presence in its board of guardians.

JSC Verkhnetisskaya Ore Mining Company ('Verkhnetisskaya') is an associate to the Group and hence was a related party until 27 May 2016 when the Group disposed its interest in Verkhnetisskaya.

CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ('Omchak') are associates to the Group and hence were related parties until 29 April 2015 when the Group disposed its interest in Omchak.

IRC Limited and its subsidiaries (Note 35) 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 2016 and 2015 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	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Asian-Pacific Bank				
Other	22	575	102	113
	22	575	102	113
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	66	1,182	3,514	5,716
Associates				
IRC Limited and its subsidiaries	69	49	1,996	1,152
CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak	–	2	–	–
	135	1,233	5,510	6,868

During the year ended 31 December 2016, the Group made US$0.2 million charitable donations to the Petropavlovsk Foundation (2015: US$0.4 million).

The outstanding balances with related parties at 31 December 2016 and 2015 are set out below.

	Amounts owed by related parties		Amounts owed to related parties	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Helios and other entities in which key management have interest and exercises a significant influence or control	1,383	1,328	1	450
Asian-Pacific Bank	1	–	–	–
IRC Limited and its subsidiaries	14,502 [(a)]	2,023	1,704	1,233
	15,886	3,351	1,705	1,683

(a) Including US$12.5 million advanced to IRC in December 2016. This balance was fully repaid in January 2017.

Banking arrangements

The Group has current and deposit bank accounts with Asian-Pacific Bank.

The bank balances at 31 December 2016 and 2015 are set out below.

	2016 US$'000	2015 US$'000
Asian-Pacific Bank	629	3,208

Financing transactions

The Group has charged a fee for the provision of the guarantee to IRC (note 14), equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement and which amounted to US$4.5 million during the year ended 31 December 2016 (31 December 2015: US$2.2 million). The Guarantee fee principal outstanding amounted to an equivalent of US$3.4 million (31 December 2015: US$nil).

The Group had an interest free unsecured loan issued to Verkhnetisskaya. Loan principal outstanding amounted to an equivalent of US$2.8 million as at 31 December 2015.

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 2016 was US$nil (31 December 2015: an equivalent of US$2.7 million). During the year ended 31 December 2016, interest charged on loans received from Asian-Pacific Bank comprised US$0.03 million (31 December 2015: US$0.5 million).

Key management compensation

Key management personnel, comprising a group of 15 (2015: 18) 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.

	2016 US$'000	2015 US$'000
Wages and salaries	6,103	7,231
Pension costs	182	357
Share based compensation	610	280
	6,895	7,868

27. Disposal of subsidiaries

During the year ended 31 December 2016, the Group entered into agreements to sell its wholly owned subsidiary LLC Ilijnskoye and its associate JSC Verkhnetisskaya Ore Mining Company for an aggregate cash consideration of an equivalent to US$20 million, payable in tranches during 2016, out of which US$19.8 million were attributed to the value of Visokoye asset held by LLC Ilijnskoye and the remainder to JSC Verkhnetisskaya Ore Mining Company.The disposal of LLC Ilijnskoye was completed on 11 May 2016.

The net assets of LLC Ilijnskoye at the date of disposal are set out below.

	11 May 2016 US$'000
Exploration and evaluation assets	16,464
Property, plant and equipment	3,361
Inventories	21
Trade and other receivables	80
Cash and cash equivalents	9
Trade and other payables	(156)
Net assets disposed	19,779
Consideration [(a)]	19,269
Loss on disposal	510
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents [(a)]	19,269
Less: cash and cash equivalents disposed of	(9)
	19,260

(a) Net of transaction costs.

During the year ended 31 December 2016, the Group disposed its interests in a number of non-core investments. Aggregate cash outflows arising from the aforementioned disposals was US$72 thousand and aggregate gain was US$1.3 million representing net liabilities disposed of.

28. 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.

29. Analysis of net debt

	At 1 January 2016 US$'000	Disposal of subsidiaries US$'000	Net cash movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2016 US$'000
Cash and cash equivalents	28,239[a]	(99)	(18,329)	2,831	–	12,642
Borrowings	(638,278)	–	84,710	173	(57,817)	(611,212)
Net debt	(610,039)	(99)	66,381	3,004	(57,817)[b]	(598,570)

(a) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 32).
(b) Being amortisation of borrowings and the effect of the bank debt refinancing (note 20).

	At 1 January 2015 US$'000	Net cash movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2015 US$'000
Cash and cash equivalents	48,080	(15,173)	(4,668)	–	28,239[c]
Borrowings	(977,804)	316,188	(105)	23,443	(638,278)
Net debt	(929,724)	301,015	(4,773)	23,443[d]	(610,039)

(c) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 32).
(d) Being amortisation of borrowings and the effect of the Refinancing.

30. 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 29) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2016, the capital comprised US$1.2 billion (2015: US$1.2 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 Group is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

Categories of financial instruments

	2016 US$'000	2015 US$'000
Financial assets		
Cash and cash equivalents	12,642	28,239
Derivative financial instruments	7,478	3,925
Loans and receivables	41,102	12,473
Available for sale investments	1,105	271
Financial liabilities		
Trade and other payables – at amortised cost	43,688	60,642
Borrowings – at amortised cost	611,212	638,278
Derivative financial instruments	10,314	14,684

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	
	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000
Russian Roubles	39,404	56,795	35,675	56,817
US Dollars [(a)]	5,355	2,875	4,700	7,278
GB Pounds Sterling	2,444	357	813	943
EUR	54	80	18	42
Other currencies	49	92	288	220

(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% (2015: 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.

	2016 US$'000	2015 US$'000
Russian Rouble currency impact	932	5
US Dollar currency impact	164	1,101
GB Pounds Sterling currency impact	408	146
EUR currency impact	9	10
Other currencies	60	32

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 Group is also exposed to a credit risk in relation to the amounts guaranteed under the ICBC facility (note 14).

The credit risk on liquid funds held in current accounts and available on demand is limited because the main counterparties are banks with high credit ratings assigned by international credit rating agencies. Having performed a high level due diligence, management does not consider the credit risk associated with Asian-Pacific Bank and other banks without international credit rating 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 and the outstanding principal and interest under the ICBC facility (note 14).

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 2016 US$'000	Carrying amount at 31 December 2015 US$'000
Barclays	A	4,056	–
Sberbank	BBB-	3,936	512
VTB	BB+	1,067	3,760
Alfa-Bank	BB+	846	–
Asian-Pacific Bank	CCC	629	3,208
Bank of Cyprus	B-	365	–
UBS	A	212	173
Royal Bank of Scotland	BBB+	5	4,835
Treasury of Russian Federation [(a)]	–	–	15,093

(a) Funds received under investment agreement with the Russian Ministry of Far East Development (note 32).

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 2016 and 2015, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18).

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 - 6 years US$'000
2016					
Borrowings					
– Convertible bonds	–	–	–	–	100,000
– Loans	1,524	83,782 [(a)]	46,255	86,475	311,759
Future interest payments [(b)]	13,257	38,670	44,589	40,322	74,730
Trade and other payables	34,658	9,030	–	–	–
	49,439	131,482	90,844	126,797	486,489
2015					
Borrowings					
– Convertible bonds	–	–	–	–	100,000
– Loans	41,744	210,105	288,274	16,817	–
Future interest payments [(b)]	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

(a) Including US$75 million based on facility contractual terms existing as at 31 December 2016 (note 20).
(b) 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.

31. Operating lease arrangements

The Group as a Lessee

	2016 US$'000	2015 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	5,057	2,535

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:

	2016 US$'000	2015 US$'000
Expiring:		
Within one year	319	383
In two to five years	531	1,148
	850	1,531

The Group as a Lessor
The Group earned property rental income from continuing operations during the year of US$0.7 million (2015: US$0.8 million) on buildings owned by its subsidiary Irgiredmet.

32. Capital commitments

At 31 December 2016, 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$3.8 million (31 December 2015: US$1.0 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 RUB5.5 billion (an equivalent to c.US$91 million as at 31 December 2016) 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. During 2016, the Group received further RUB2.0 billion (an equivalent to US$30.8 million) under the Investment Agreement and transferred an aggregate RUB3.1 billion (an equivalent to US$47.7 million) to DRSK.

33. Subsequent events

In February - March 2017, the Group has entered into forward contracts to sell an aggregate of 549,994oz of gold during the years 2017 - 2019 at an average price of US$1,252/oz.

34. Reconciliation of non-GAAP measures (unaudited)

	2016 US$'000	2015 US$'000
Profit/(loss) for the period from continuing operations	31,706	(190,454)
Add/(less):		
Interest expense	60,976	71,514
Investment income	(556)	(1,018)
Other finance gains	(11,976)	(9,064)
Other finance losses	1,548	–
Foreign exchange losses	5,158	11,952
Taxation	(4,698)	48,879
Depreciation	105,252	129,104
Impairment of exploration and evaluation assets	9,155	37,442
Impairment of ore stockpiles	1,163	17,425
Share in results of associates [(a)]	2,356	57,009
Underlying EBITDA	200,084	172,789

(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).

35. Principal subsidiaries and other significant investments

The Group has the following principal subsidiaries and other significant investments, which were consolidated in this financial information.

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC 31 December 2016	Proportion of shares held by Petropavlovsk PLC 31 December 2015	Proportion of shares held by the Group 31 December 2016	Proportion of shares held by the Group 31 December 2015
Subsidiary						
CJSC 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	43.5%	43.5%	98.61%	98.61%
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%
LLC Iljinskoye	Russia	Gold exploration and production	–	–	–	100%
LLC Potok	Russia	Gold exploration and production	–	–	–	100%
LLC Temi	Russia	Gold exploration and production	–	–	75%	75%
LLC AGPK	Russia	Gold exploration and production	–	–	98.61%	98.61%
LLC PPOP	Russia	Gold exploration and production	–	–	98.61%	–
Major Miners Inc.	Guyana	Gold exploration and production	–	–	–	100%
Universal Mining Inc.	Guyana	Gold exploration and production	–	–	100%	100%
Cuyuni River Ventures Inc.	Guyana	Gold exploration and production	–	–	–	100%
LLC Kapstroi	Russia	Construction services	–	–	100%	100%
LLC NPGF Regis	Russia	Exploration services	–	–	100%	100%
CJSC ZRK Dalgeologiya	Russia	Exploration services	–	–	98.61%	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%
IRC Limited [(a)]	HK	Management and holding company	–	–	31.10%	35.83%

(a) 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 31 December 2016	Proportion of shares held by Petropavlovsk PLC 31 December 2015	Proportion of shares held by the Group 31 December 2016	Proportion of shares held by the Group 31 December 2015
IRC and its principal subsidiary and joint venture undertakings ('IRC')						
IRC Limited	HK	Management and holding company	–	–	31.10%	35.83%
Principal subsidiaries of IRC						
LLC Petropavlovsk-Iron Ore	Russia	Management company	–	–	31.10%	35.83%
LLC Olekminsky Rudnik	Russia	Iron ore exploration and production	–	–	31.10%	35.83%
LLC KS GOK	Russia	Iron ore exploration and production	–	–	31.10%	35.83%
LLC Garinsky Mining & Metallurgical Complex	Russia	Iron ore exploration and production	–	–	30.97%	35.83%
LLC Kostenginskiy GOK	Russia	Iron ore exploration and production	–	–	31.10%	35.83%
LLC Orlovo-Sokhatinsky Rudnik	Russia	Iron ore exploration and production	–	–	31.10%	35.83%
JSC Giproruda	Russia	Engineering services	–	–	21.86%	25.18%
LLC SHMTP	Russia	Infrastructure project	–	–	31.10%	35.83%
LLC Amursnab	Russia	Procurement services	–	–	31.07%	35.83%
Heilongjiang Jiatal Titanium Co., Limited	China	Titanium sponge project	–	–	31.10%	35.83%
LLC Uralmining	Russia	Iron ore exploration and production	–	–	31.10%	35.83%
LLC Gorniy Park	Russia	Molybdenym project	–	–	18.75%	17.95%
Joint ventures of IRC						
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	Vanadium project	–	–	14.31%	16.48%

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36. 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 2016 is disclosed below. The Group's principal subsidiaries and other significant investments are set out in note 35.

Name of undertaking	Country of incorporation	Proportion of shares held by the Group	Registered address
Subsidiaries			
Aricom B Finance Plc	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Finance UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Services Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Roubles Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom B Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom B Roubles Treasury Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk Rouble UK Limited	UK	98.61%	11 Grosvenor Place, London, SW1X 7HH
Eponymousco Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Victoria Resources Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Peter Hambro Mining Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Peter Hambro Mining Rouble Treasury Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk 2010 Limited	Jersey	100%	13-14 Esplanade, St. Helier, JE1 1EE
Petropavlovsk (Jersey) Limited	Jersey	100%	13-14 Esplanade, St. Helier, JE1 1EE
Peter Hambro Mining Group Finance Limited	Guernsey	100%	PO Box 409, Elizabeth House, Ruette Braye, St. Peter Port, GY1 3WA
CJSC Management Company Petropavlovsk	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
JSC Pokrovskiy Rudnik	Russia	98.61%	676150, Amur Region, Magdagachinskiy District, Tygda Village, Sovetskaya Street, 17
LLC Malomirskiy Rudnik	Russia	99.86%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Albynskiy Rudnik	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Osipkan	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Tokurskiy Rudnik	Russia	100%	676581, Amur Region, Selemdzhinskiy District, Tokur Village, Vorozhejkina Street, 16
LLC Rudoperspektiva	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Temi	Russia	75%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC AGPK	Russia	98.61%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC PPOP	Russia	98.61%	675002, Amur Region, Blagoveshchensk, Amurskaya Street, 17
LLC Kapstroi	Russia	100%	675002, Amur Region, Blagoveshchensk, Amurskaya Street, 17
LLC NPGF Regis	Russia	100%	675027, Amur Region, Blagoveshchensk, Western Industrial Hub
CJSC ZRK Dalgeologiya	Russia	98.61%	680041, Khabarovskiy Region, Khabarovsk, Balashovskaya Street, 15
JSC PHM Engineering	Russia	94%	105082, Moscow, Rubtsov Pereulok, 13
JSC Irgiredmet	Russia	99.69%	664025, Irkutsk, Gagarina Boulevard, 38
LLC NIC Gydrometallurgia	Russia	100%	196247, St. Petersburg, Leninskiy Prospekt, 151
LLC BMRP	Russia	100%	675016, Amur Region, Blagoveshchensk, Kalinina Street, 137
LLC AVT-Amur	Russia	49%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Transit	Russia	100%	676572, Amur Region, Selemdzhinskiy District, Fevralsk Urban Village, Vysotskogo Street, 1
Pokrovskiy Mining College	Russia	98.61%	676244, Amur Region, Zeya, Zolotogorskoe Shosse, 6
Universal Mining Inc.	Guyana	100%	Lot 8 Pere Street, Kitty, Georgetown
Peter Hambro Mining (Cyprus) Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Malomyrskiy Rudnik (Cyprus) Ltd	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Voltimand Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Horatio Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Sicinius Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Syncrom High Corporation Ltd	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Cayiron Limited	Cayman Islands	100%	Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108

Name of undertaking	Country of i ncorporation	Proportion of shares held by the Group	Registered address
Associates			
IRC Limited	HK	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
Subsidiaries of IRC			
LLC Petropavlovsk- Iron Ore	Russia	31.10%	127055, Moscow, Lesnaya Street, 43, Office 313
LLC Olekminsky Rudnik	Russia	31.10%	676253, Amur Region, Tyndinskiy District, Village Olekma
LLC KS GOK	Russia	31.10%	679000, The Jewish Autonomous Region, Birobidzhan, 60-Letiya SSSR Street, Building 22B
LLC Garinsky Mining & Metallurgical Complex	Russia	30.97%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19
LLC Kostenginskiy GOK	Russia	31.10%	679000, The Jewish Autonomous Region, Birobidzhan, 60-Letiya SSSR Street, Building 22B.
LLC Orlovo-Sokhatinsky Rudnik	Russia	31.10%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19
JSC Giproruda	Russia	21.86%	St. Petersburg, Leninskiy Avenue,151
LLC SHMTP	Russia	31.10%	682818, RF, Khabarovsk Territory, Town Sovetskaya Gavan, Pervomayskaya Street, 48A
LLC Amursnab	Russia	31.07%	127055, Moscow, Lesnaya Street, 43, Office 313
LLC Uralmining	Russia	31.10%	105082, Moscow, Spartakovskaya Square, 14, Building 1
LLC Gorniy Park	Russia	18.75%	101000, Moscow, Pokrovka Street,1/13/6 Building 2, Office 35
LLC Garinskaya Infrastructure	Russia	31.10%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19
LLC TOK	Russia	31.10%	676282, Amur Region, Tynda, Sovetskaya Street,1A
Lucilius Investments Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Kapucius Services Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Lapwing Limited	Cyprus	30.97%	Themistokli Dervi 12, Palais D' Ivoire, 2nd Floor, 1066 Nicosia
Russian Titan Company Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Brasenose Services Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Tenaviva Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Esimanor Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Metellus Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Dardanius Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Rumier Holdings Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Guiner Enterprises Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Expokom Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Arfin Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Caedmon Limited	Cyprus	18.75%	Souliou 14, Aglantzia, 2102 Nicosia
Thorholdco (Cyprus) Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Heilongjiang Jiatal Titanium Co., Limited	China	31.10%	668, Songxing Street, Jiamusi, Heilongjiang Province
Ariti HK Limited	Hong Kong	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
Ariva HK Limited	Hong Kong	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
Thorrouble Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Thordollar Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Thorholdco Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Aricom UK Limited	UK	31.10%	11 Grosvenor Place, London, SW1X 7HH
Aricom Limited	UK	31.10%	11 Grosvenor Place, London, SW1X 7HH
Joint ventures of IRC			
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	14.31%	Building 50, Block12, Advanced Business Park, No. 188.West Road, South Ring 4, Fengtai District, Bejing

Company Balance Sheet

At 31 December 2016

	note	2016 US$'000	2015 US$'000
Fixed assets			
Tangible assets		59	87
Investments	3	739,921	776,214
		739,980	776,301
Current assets			
Debtors: due within one year	4	761,366	305,346
Debtors: due after one year	4	300,000	598,389
Cash at bank and in hand		4,259	4,966
		1,065,625	908,701
Creditors: amounts falling due within one year	5	(704,768)	(493,562)
Net current assets		360,857	415,139
Total assets less current liabilities		1,100,837	1,191,440
Derivative financial liability		(10,314)	(14,684)
Creditors: amounts falling due after more than one year	5	(531,949)	(566,631)
Net assets		558,574	610,125
Capital and reserves			
Share capital		48,920	48,874
Share premium		518,142	518,142
Own shares		–	(12,685)
Other reserves		(1,946)	(2,500)
Profit and loss account		(6,542)	58,294
Shareholders' funds		558,574	610,125

The loss after tax for the year of the Company was US$52.5 million (2015: loss after tax of US$175.8 million).

The accompanying notes are an integral part of this balance sheet.

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 164 to 168 were approved by the Directors on 26 April 2017 and signed on their behalf by

Peter Hambro
Director

Andrey Maruta
Director

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital [a] US$'000	Share premium US$'000	Convertible bond reserve US$'000	Own shares [b] US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000
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	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 1 January 2016	48,874	518,142	–	(12,685)	(2,500)	58,294	610,125
Loss for the year	–	–	–	–	–	(52,525)	(52,525)
Deferred share awards	46	–	–	12,685	(280)	(12,311)	140
Revaluation of available for sale investments	–	–	–	–	834	–	834
Balance at 31 December 2016	48,920	518,142	–	–	(1,946)	(6,542)	558,574

(a) Please see note 23 to the consolidated financial statements.

(b) 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 own shares are set out in note 24 to the consolidated financial statements. Details of the Group's share based payments are set out in note 28 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 2016

1. Basis of preparation

These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

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.

The financial statements have been prepared on the historical cost basis except for the re measurement of certain financial instruments to fair value.

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.

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 2.6 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 Dividends
Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

2.8 Operating leases
Rentals paid under operating leases are charged to the profit and loss account as incurred.

3. Investments

	Investments in Group companies US$'000	Other investments other than loans US$'000	Total US$'000
Cost			
At 1 January 2016	2,133,224	267	2,133,491
Fair value change	–	834	834
At 31 December 2016	2,133,224	1,101	2,134,325
Provision for impairment			
At 1 January 2016	(1,357,277)	–	(1,357,277)
Charge for the year	(37,127) [(a)]	–	(37,127)
At 31 December 2016	(1,394,404)	–	(1,394,404)
Net book value			
At 1 January 2016	775,947	267	776,214
At 31 December 2016	738,820	1,101	739,921

(a) *Including a US$3.0 million adjustment to reflect changes in the value of the underlying investment in IRC Limited (note 14 to the consolidated financial statements), US$7.6 million adjustment to reflect changes following disposal of Visokoye exploration and evaluation asset (note 27 to the consolidated financial statements) and US$26.5 million adjustment to align the value of the investment with the value of the assets held by a subsidiary undertaking.*

4. Debtors

	2016 US$'000	2015 US$'000
Owed by Group companies	1,048,124	901,392
VAT recoverable	2,046	2,055
Other debtors	11,196	288
	1,061,366	903,735
Due within one year	761,366	305,346
Due after more than one year	300,000	598,389
	1,061,366	903,735

5. Creditors

	2016 US$'000	2015 US$'000
Due to Group companies	706,751	626,080
Bank loans [(a)]	525,132	430,256
Trade creditors	975	647
Accruals and other creditors	3,859	3,210
	1,236,717	1,060,193
Due within one year	704,768	493,562
Due after more than one year	531,949	566,631
	1,236,717	1,060,193

(a) *Please see note 20 to the consolidated financial statements.*

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6. Taxation

As at 31 December 2016, the Company has tax losses available to carry forward in the amount of US$198.0 million (2015: US$163.2 million).

7. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain Group undertakings. Please also see note 14 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:

	2016 US$'000	2015 US$'000
Expiring:		
Within one year	319	383
Within two to five years	531	1,148
	850	1,531

9. Directors' remuneration

There were three Executive Directors who held office at the end of the year (2015: three Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 87 to 103 of this Annual Report.

Appendix, Glossary and Definitions

For the year ended 31 December 2016

Important information
Past performance of Petropavlovsk PLC or any other company referred to in this document cannot be relied on as a guide to its 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 document 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', 'seeks', 'projects', 'anticipates', 'expects', 'intends', 'forecast', 'may', 'will' 'would' 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 document 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 document. 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 document, 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 document.

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 scheduled for production through the mines' existing processing facilities. Mineral Resource and Ore Reserve estimates for these assets were audited by WAI in accordance with JORC Code (2012) in April 2017. The ore reserve estimate uses a long term gold price assumption of US$1,200/oz with other modifying factors derived from the actual 2016 operational performance. Mineral resources are estimated using a US$1,500/oz long term gold price assumption. The Group considers its 'non-core' projects to be those assets which have good prospects, but are not located near current processing facilities. Following the disposal of the Visokoye and Yamal assets, the "non-core" projects include Tokur and Burinda. Tokur Mineral Resource and Ore Reserve estimates were reviewed in accordance with JORC Code (2004) and signed off by WAI in March 2011. The estimate uses a US$1,000/oz gold price assumption together with other modifying factors relevant on the date of the estimate. Tokur Mineral Resources and Ore Reserves have not changed since. The Burinda resource estimate was reviewed and signed off by WAI in accordance with JORC Code (2012) in April 2016. The estimate has not changed since that date. Following the depletion of its open pit reserves in 2015 Burinda was reclassified from a "core" to a "non-core" project.

All-in sustaining cash costs/all-in 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 on page 58 to 69*
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	holders of the Group's new US$100 million 9% convertible bonds due 2020
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 34 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
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. For a calculation of total cash costs, *please refer to the 'Hard Rock Mines' section of the Chief Financial Officer's Statement on page 58 to 69*
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
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Registered in England and Wales (no.4343841)

Online for general queries:
contact@petropavlovsk.net

Head of Investor Relations
Alexandra Carse

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 2016
This year's Annual General Meeting (AGM) will be held at 3 More London Riverside, London SE1 2AQ. The meeting is on 20 June 2017, commencing at 10 a.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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