# Annual Report 2018

PETROPAVLOVSK

# Our Values

## Responsibility

We place people first. Responsible practices are our highest priority and we aim to operate safely, efficiently and transparently, continually seeking new ways to ensure an injury-free workplace. We are committed to preventing pollution, minimising waste, increasing carbon efficiency and optimising natural resource usage.
We develop innovative solutions to mitigate environmental risks and welcome an active dialogue with local communities.

## Innovation

We challenge ourselves and others to constantly improve in line with the most recent scientific and engineering developments worldwide. Our aim is to be a respected industry leader in safety and environmental practices, whilst realising the full potential of our assets through ingenuity, drive, and innovation.

## Integrity

We believe that honest communication, sound business ethics and respect for people are the foundation of our business and we deal with all our stakeholders in a respectful, responsible way. We are guided by our Code of Ethics in every situation, at all levels of the Company, to preserve dignity and self-worth in all our interactions.

## Excellence

We are focused on delivering results and on doing what we say we will do.
We accept responsibility and hold ourselves accountable for our work, behaviour, ethics and actions. We aim to deliver high performance outcomes and undertake to deliver on our commitments to our colleagues, business and social partners, and our investors.

## Sustainability

Sustainable development has been a key focus for the Group since its foundation. At Petropavlovsk, our objective is to act in the interests of our stakeholders, including shareholders, employees and the communities in which we operate, by ensuring all our activities are efficient, responsible, transparent and sustainable.

# Annual Report 2018

Petropavlovsk is one of Russia's major gold mining companies, both in terms of production and the size of its resource. With a strong track record of mine development, expansion and asset optimisation, the Company has entered a new era of growth following the successful commissioning and start-up of the Pokrovskiy POX Hub. As an established vertically integrated gold producer in the Far East of Russia, Petropavlovsk is positioned to increase shareholder value by supplementing traditional non-refractory production with the processing of high-grade refractory concentrate, while at the same time focusing on costs and strengthening profitability.

**Download a digital copy**

This report is available to download from our corporate website.
www.petropavlovsk.net

You can also now access key highlights of the report online.
www.petropavlovsk-2018.net

# Highlights

In December 2018, Petropavlovsk poured the first gold recovered from processing concentrate through the autoclaves at the newly commissioned POX Hub. It heralds a new era of innovation and expansion for the Group. This state-of-the-art facility unlocks the value embedded within c.5.3Moz of refractory reserves discovered by the Company and expands business opportunities into the field of third party concentrate processing. It also gives Petropavlovsk a significant competitive advantage in developing new gold exploration terrains in the region.

**Key 2018 Financial Figures**

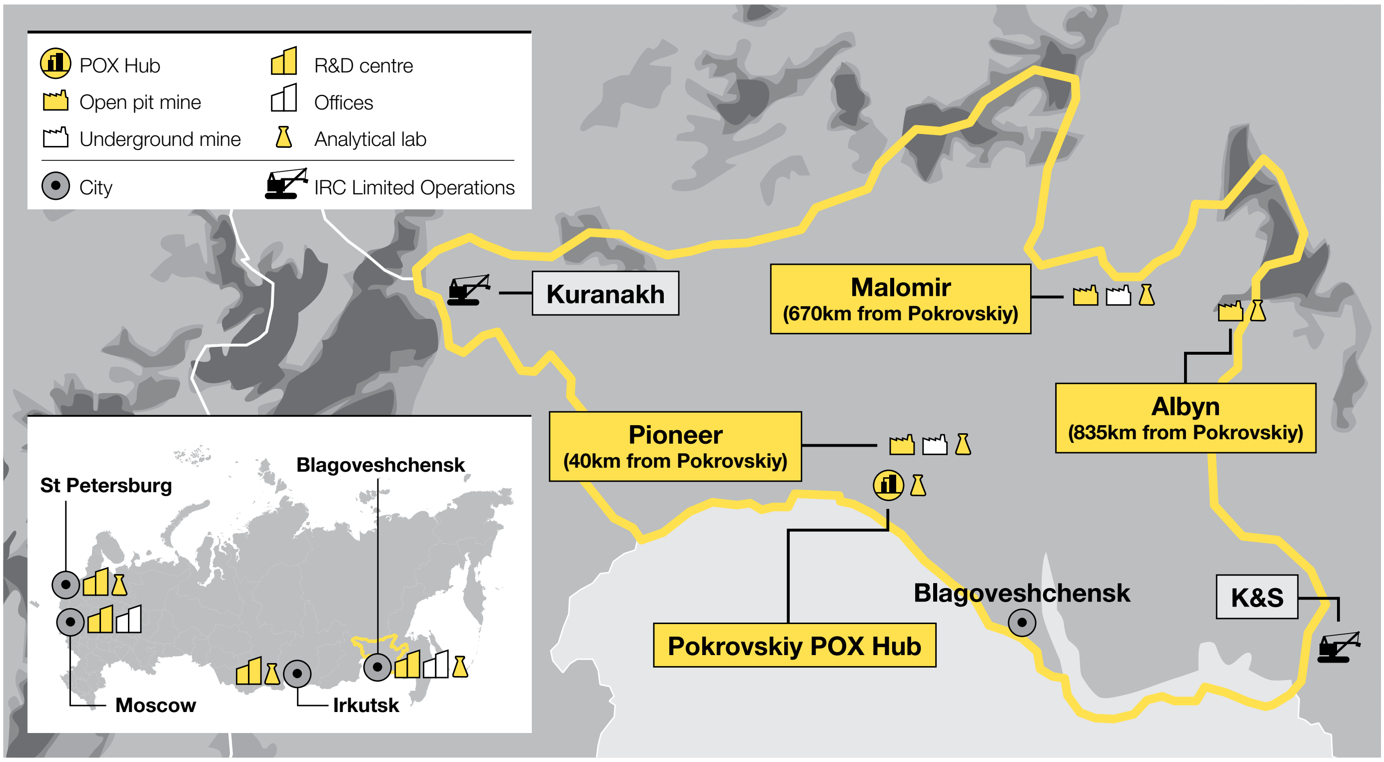
Revenue
US$ 499.8m
*(2017: US$587.4m)*

Total Cash Costs
US$ 786/oz
*(2017: US$741/oz)*

All-in Sustaining Costs
US$ 1,117/oz
*(2017: US$963/oz)*

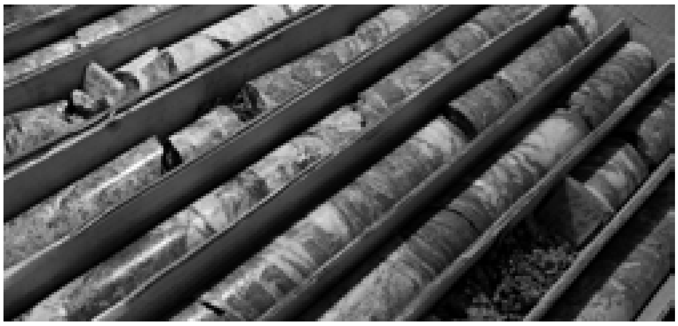
Underlying EBITDA
US$ 143.0m
*(2017: US$196.8m)*

Net Profit
US$ 25.9m
*(2017:US$37.1m)*



# At a Glance

Three mining centres with open pits and additional underground operations at Pioneer and Malomir. The Group has produced c.7.1Moz of gold to 31 December 2018



Long life JORC Resources base of c.20.5Moz, including Reserves of c.8.2Moz

Newly commissioned state-of-the-art POX Hub at the former site of the Pokrovskiy mine

Malomir flotation plant completed, production commenced with concentrate grade more than 50% higher than originally planned

FY2018 gold production of c.422koz (with sales of c.370koz)

Prospective refractory exploration targets

Significant potential for third party processing

Skilled workforce


ПЕТРОПАВЛОВСК
ГРУППА КОМПАНИЙ

# Contents

## Inside this report

### Strategic Report


| | |
|---|---|
| Our Values | IFC |
| Annual Report 2018 | 1 |
| Highlights | 2 |
| At a Glance | 3 |
| Contents | 5 |
| Chairman's Statement | 6 |
| CEO's Statement | 8 |
| Our Business Model | 10 |
| Our Strategy | 12 |
| Market Overview | 14 |
| Principal Risks and Mitigation | 16 |
| Operational Performance: Key Performance Indicators | 34 |
| Operational Performance | 36 |
| The POX Hub | 46 |
| Underground | 53 |
| Reserves and Resources | 54 |
| Exploration Update | 65 |
| IRC | 67 |
| Sustainability: Key Performance Indicators | 68 |
| Introduction to Safety, Sustainability & Workforce Committee Report | 72 |
| Our Approach to Sustainable Development | 73 |
| Financial Performance: Key Performance Indicators | 84 |
| Chief Financial Officer's Statement | 87 |


### Governance


| | |
|---|---|
| Introduction from the Chairman | 97 |
| Board of Directors | 98 |
| Executive Committee | 100 |
| Governance Report | 102 |
| Nominations Committee Report | 110 |
| Audit Committee Report | 112 |
| Directors' Remuneration Report | 121 |
| Directors' Report | 139 |
| Directors' Responsibilities Statement | 145 |
| Independent Auditor's Report to the Members of Petropavlovsk PLC | 146 |


### Financial Statements


| | |
|---|---|
| Consolidated Statement of Profit or Loss | 158 |
| Consolidated Statement of Comprehensive Income | 159 |
| Consolidated Statement of Financial Position | 160 |
| Consolidated Statement of Changes in Equity | 161 |
| Consolidated Statement of Cash Flows | 162 |
| Notes to the Consolidated Financial Statements | 163 |
| Company Balance Sheet | 205 |
| Company Statement of Changes in Equity | 206 |
| Notes to the Company Financial Statements | 207 |
| The Use and Application of Alternative Performance Measures (APMs) | 210 |
| Appendix, Glossary and Definitions | 217 |
| Shareholder Information | 221 |


### Non-Financial Information Statement

We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The table below is intended to guide stakeholders to where the relevant non-financial information is included within our Strategic Report.

| Reporting requirement | Policies and Standards | Outcomes and Additional Information | Page |
|---|---|---|---|
| **Environmental matters** | Safety, Health and Environment | Managing environmental impact | 81-83 |
| | GHG Emissions | Climate change | 71 |
| | ISO 14001-2016 | Permitting | 81 |
| | Water Management | Water | 82 |
| | Waste Management Programme | Waste | 83 |
| | Cyanide Management | | 83 |
| | Rehabilitation Programme | | 83 |
| **Employees** | Education and Training | The Pokrovskiy Mining College | 76 |
| | Health & Safety Management Systems | Safety | 79-80 |
| **Human rights** | Human Rights Policy | Human rights | 77 |
| **Social matters** | Grievance Mechanism | Enable members of the public and other stakeholders to raise complaints | 77 |
| | | The Petropavlovsk Foundation | 77 |
| **Anti-corruption and anti-bribery** | Code of Condut and Business Ethics | Building a purpose-led culture/corruption controls | 76 |
| **Principal risks and impact of business activity** | | Business model | 10-11 |
| | | Managing risk | 16-33 |
| **Non-financial KPIs** | | Key performance indicators | 69-71 |

# Chairman's Statement

## Sir Roderic Lyne

This has been a good year for Petropavlovsk, and I believe that the coming years will be even better.

At the time of writing, I have recently returned from a visit with all members of the Board to the Group's operations in the Far East of Russia and to the Kimkan and Sutara (K&S) mine of our associated company, IRC. This was very encouraging. At Pokrovskiy we saw the Pressure Oxidation (POX) plant producing gold through autoclaves from refractory concentrate mined and processed at Malomir. This is one of only two such plants processing gold in Russia and results from the investment of over US$400 million since Pavel Maslovskiy and his team initiated the project in 2011. As around half of the Group's reserves and resources are in refractory ore (as are a large proportion of Russia's gold resources), our ability to process this ore through pressure oxidation will sustain our future in the region for many years to come. The successful commissioning since last autumn of the huge and sophisticated POX Hub is a major achievement.

From Pokrovskiy, after overflying the nearby Pioneer mine, the Board moved on to Malomir where a new flotation plant has been built to feed concentrate to the POX Hub. Malomir is another impressive and well-run operation, mining ore from a network of open pits as well as underground (as does Pioneer). In Blagoveshchensk, as at the mines, we were able to have extensive conversations with those responsible for exploration, laboratory analysis and testing, safety, sustainability, training, and community relations.

No visitor can fail to be struck by the challenges successfully overcome to create large-scale enterprises in such remote and climatically harsh locations; but most impressive of all are the quality, technical expertise and commitment of the staff at all levels. They are rightly proud of what they have achieved and determined to build on this. Backtracking in time to the Company's last Annual General Meeting on 29 June 2018, when shareholders elected Dr Pavel Maslovskiy, Mr Robert Jenkins and myself to constitute the new Board we set out to restore much-needed stability and momentum to the Group. We defined three immediate objectives; the commissioning of the POX Hub, the optimisation of the Company's capital structure including its relationship with IRC, and the rebuilding of the Board and Management team.

I am pleased to report that all three of these objectives have been achieved. The POX Hub is now in operation. The IRC loan has been refinanced and its guarantee restructured on more favourable terms, as approved by shareholders at the Company's General Meeting on 12 March 2019. The Board has been reconstituted and strengthened by the appointment of three new Independent Directors. I shall take each of these points in turn.

First, the commissioning of the POX Hub, as I have said above, is the result of almost a decade of work and is a step vital to the Company's future as it will enable us to unlock the value embedded in c.5.3Moz of the Company's refractory reserves. POX has created several options for the Company's growth, including both the processing of third-party concentrate and known refractory gold deposits in the Amur region which are available from the Russian Government. These licences are highly prospective, yet until recently have not been of interest due to the absence of viable processing options. Further refinements of the technology have the potential to increase recovery from the concentrate, thereby raising profitability.

Secondly, an important task facing the newly constituted Board was the de-risking of the Company's finances. Petropavlovsk holds a 31.1% equity stake in IRC, an iron ore miner listed on the Hong Kong stock exchange which produces 65% concentrate from its K&S iron ore mine. The Group acts as guarantor for the project finance facility in relation to K&S and, as part of its ongoing balance sheet optimisation, the Group also continues to assess options to realise the value of its current interest in IRC. As the Board saw during their visit to the K&S mine, the facility at K&S has been commissioned (after a significant delay due principally to under-performance by the main construction contractor) and production of iron ore product is being ramped up with IRC announcing that in March 2019 it achieved a monthly record of c.210,000 tonnes of 65% concentrate sold to its customers. Construction of a new railway bridge connecting Russia and China across the Amur River near Birobidzhan is approaching completion. The railway crossing is expected to become operational later in 2019 and will reduce the time and cost of moving IRC's iron ore concentrate to customers in China.

The new US$240 million facility for IRC with Gazprombank is on more favourable terms than the previous ICBC facility and provides IRC with an extended period to repay its debt finance through to 2026. This new facility de-risks the Company's liability due to the longer maturity of the facility, alongside a more relaxed amortisation schedule that aligns more closely with the ramp-up of production at the K&S mine. As part of the new facility, the guarantee mechanism is implemented through a series of five guarantees that fluctuate in value through the eight-year life of the loan, with the possibility of Petropavlovsk's initial US$160 million liability reducing to US$40 million within two to three years, subject to certain conditions being met. In these circumstances and for the final two years of the new facility, the guarantee liability will increase to a maximum US$120 million to cover the final principal and interest repayments. The facility has been drawn down and has been used to repay the outstanding ICBC facility of US$169 million; two bridge loans advanced by the Company to IRC, amounting to c.US$57 million; and will enable IRC to to fully pay the guarantee fee of c.US$6 million owing to Petropavlovsk in relation to the guarantee provided for the ICBC facility with a further US$5 million payable no later than 31 March 2020.

Thirdly, we have restored strong leadership to the Group. I was keen to ensure that Petropavlovsk had a highly qualified and independent Board, fully meeting UK corporate governance standards. To support the three Directors elected at the last AGM and Mr Bektas Mukazhanov, who returned to the Board on 27 July 2018 as the nominee of our major shareholder, Fincraft Holdings Limited, three additional Independent Directors were appointed in the latter part of 2018. Mr James W Cameron Jr, Mr Damien Hackett and Mr Harry Kenyon-Slaney have brought a wealth of knowledge and experience to the Board, including (in the case of the last two named) experience of senior positions in management and investment in the mining industry. The reconstituted Board now has an independent non-executive Chairman and four independent non-executive Directors, one Executive Director and one nominee Director. I am also pleased to announce the appointment of Mr Harry Kenyon-Slaney as the Senior Independent Director effective from 23 April 2019. We have diversity of skills, experience and nationality and are actively seeking diversity of gender. I would like to pay tribute to my Board colleagues for their exceptional commitment to the Group.

During the ten months from 29 June 2018, the Board has held no fewer than 8 scheduled and 13 additional meetings, in addition to the week-long site visit.

I cannot overstate the importance of Dr Pavel Maslovskiy's return as CEO after a year in which, under the previous Board, the Group was largely without a permanent Chief Executive. As a co-founder of the company and a respected authority with deep technical understanding, Pavel Maslovskiy is uniquely placed to drive the business forward. He has reinvigorated the senior executive team, whose confidence he enjoys. His return led to a marked improvement in operational performance in the second half of 2018, during which both the Malomir flotation plant and the POX Hub were commissioned successfully. His personal commitment to the Group's success sets an example to all.

As a major employer and taxpayer in the Amur region, Petropavlovsk's success is linked to its commitment to the local communities in which it operates. We seek to act in the interests of all our stakeholders by ensuring our activities are safe, transparent and sustainable and by creating equal opportunities for all employees.

Integral to this opportunity to progress up the ranks is the education of graduates at the Group's Pokrovskiy Mining College. In 2018 we celebrated the tenth anniversary of this institution from which over 10,500 people have graduated. Study, tuition and accommodation are free for students for the duration of training, and those who demonstrate outstanding results receive a stipend. The latest batch of graduates received specialised training on a unique simulator for their roles on the new POX Hub.

In 2018 the Amur region celebrated the 160th anniversary of its foundation and the Petropavlovsk Foundation produced a documentary about its history which was distributed to all the schools in the region for use as a teaching aid. The Company also supports an annual festival of theatre and cinema as well as the development of children's sports activities.

A new Safety, Sustainability and Workforce Committee (SSW Committee) was formed in November 2018. The SSW Committee will meet regularly and is chaired by Harry Kenyon-Slaney who introduces the Sustainability Report on page 72. The safety of our employees and the people in our local communities is at the head of our priorities. Over the past year there has been a good safety record in our mining operations, but we constantly seek improvements. 2018 has been another strong year for environmental management with zero reported licence violations. There were no serious or moderate incidents of air pollution, contamination of the soil or ground water during the year.
The Company implements several initiatives aimed at reducing its footprint or improving the environment, including a zero-discharge and a recycled water supply systems which are in place within all Group companies. This has allowed us to significantly reduce the consumption of clean natural resources and minimise the discharge of waste water. Initiatives undertaken by the Group on environmental protection included the release of eighty thousand carp hatchlings into the waters of the Zeya River.

Petropavlovsk stands on a much stronger foundation than it did a year ago. Its stabilisation and improved performance have been reflected in the share price.
The Board now wishes to look ahead to the strategic development and growth of the Group and to the delivery of value to our shareholders. The pressure oxidation process will allow us to unlock value from our existing asset base. We shall wish to explore the possibility of building a flotation plant at Pioneer and of expanding the flotation facilities at Malomir. We shall also review new ore bodies in the region and the options for treating third party concentrates. By exploiting these opportunities, we intend to strengthen cash flows and further de-risk the Group's balance sheet.

Like all gold-mining companies, Petropavlovsk is subject to both the technical challenges of exploration, extraction and processing, and to fluctuations in the gold price and exchange rates in a volatile global economy. We have navigated these challenges successfully and without complacency over the past year, helped by the support of shareholders and the commitment of the Group's employees. There will be further challenges in the years ahead. With your continuing support and, for the reasons given in this report, I am confident that we can continue to handle the tasks before us and help Petropavlovsk flourish.

**Sir Roderic Lyne**
Non-Executive Chairman

24 April 2019

# CEO's Statement

## Pavel Maslovskiy

In July 2018, after an absence of nearly 12 months, I returned as CEO of a Company that I co-founded with my business partner nearly 25 years ago. The situation which presented itself on my return was one of declining morale under previous leadership and worsening operational performance which required immediate action; not to mention the critical work that was required to deliver a project of the scale and complexity of the POX Hub.

The successful commissioning of the POX Hub in the second half of 2018 is a landmark achievement under any circumstance and represents the fruition of nearly a decade of work by our world-class experts and consultants. The commissioning of this state-of-the art project creates significant optionality with respect to the ores that can be treated and growth potential which will help to secure our long-term future in the region.

Notwithstanding the challenges experienced in the first half of the year, from an operational point of view, our principal objectives for 2018 were largely met and included:

- The completion and commissioning of the first two lines of the flotation plant at Malomir;
- The completion and commissioning of the POX Hub at Pokrovskiy with initial gold doré production;
- The further development of underground mining at Pioneer and Malomir; and
- The exploration and development of further ore resources for both conventional and POX processing.

The turnaround of our business is a testament to the ongoing support, dedication and hard work of all Petropavlovsk's employees and I take this opportunity to express my gratitude as well as to thank our newly constituted Board for their guidance during this challenging period.

**The Commissioning of the POX Hub**
It gives me great pleasure to report on the first phase of the Company's flagship project, the POX Hub, which was successfully commissioned ahead of schedule with the first two autoclave lines reaching design capacity in record time, validating the plant design work of the project's scientific and engineering teams. The first gold doré was poured on 21 December 2018, ahead of schedule, with a total of 0.6koz produced by the end of 2018. The Group is on track to commission the next two processing lines of the POX project in H2 2019. In its present configuration, with two fully working autoclaves, the POX Hub will have an annual capacity of up to c.250ktpa of concentrate (depending on the properties of the concentrate to be processed). Importantly, the design of the hub containing separate autoclaves enhances the operating flexibility of the Hub which means that we can process different types of concentrate at the same time. In addition, initial refinements of the technology by our in-house experts have demonstrated the potential to increase recovery from the double-refractory concentrate, something which will contribute positively to the bottom line.

The immediate impact of the POX Hub is to unlock the value embedded within c.5.3Moz of the Group's refractory gold reserves, thus doubling the material available for immediate processing. The first two lines of the associated flotation plant at our Malomir mine were successfully commissioned and ramped-up by Q3 and are now supplying the POX Hub with high grade refractory ore concentrate. Our specialists managed to significantly improve the original parameters of the flotation plant thus improving the profitability of the project. The key attribute of POX Hub is the competitive advantage and optionality that this technology affords the Company. The Board is now reviewing the possibility of bringing forward an expansion of the flotation plant at Malomir and the construction of a new flotation plant at the Pioneer mine to increase the supply of our own refractory ore concentrates to the POX Hub.

With the additional two autoclaves operating at full capacity, the POX Hub will be able to treat up to 500ktpa of concentrates. Ahead of growth in the supply of our own refractory concentrates, there is expected to be potential spare capacity of up to c.250ktpa in the POX Hub which can be used to treat concentrate from other mines in the region, providing the Company with a potentially low-risk and high-return income stream. We are already in active discussions with several refractory gold concentrate suppliers and pleasingly have already secured two batches of high-grade concentrate. Enhancing capacity utilisation by expanding and optimising concentrate throughput from the Group's refractory reserves as well as from third party sourced concentrate may result in a meaningful contribution to overall 2019 production. In addition, the commissioning of the POX Hub has opened the possibility of acquiring refractory gold deposits in the Amur and neighbouring regions. These licences are highly prospective and have the potential to further improve the Company's outlook.

**Operations**
During the year, the Company continued to progress with its development plans whilst achieving good operational results and maintaining financial discipline. At Albyn, one of our flagship mines, slightly lower grades impacted production, leading to an uptick in unit costs, while at Pioneer more challenging geotechnical and hydrogeological conditions than expected were encountered but resolved. However, this meant that access to high-grade stopes at Pioneer's underground operations were delayed, impacting on production and costs. We continued to ramp up underground operations at both Pioneer and Malomir during 2018. These simultaneous developments proved to be challenging and led to some delays to the original commissioning timetable. By year end, Malomir was producing at full design capacity. Issues at Pioneer were due to unexpected ingress of underground water; however, I am pleased to report that due to the proactive approach of the in-house engineering team, these problems are now fully resolved and Pioneer is expected to ramp up to full capacity during 2019.

In the medium term, significant prospectivity exists at Albyn, Malomir and Pioneer for the discovery of additional non-refractory and refractory gold, which would add to our existing 20Moz of resources. The exploration programme remains focused on brownfield activities as an effective way to maximise the value of Group production facilities for the longer term and is focused on high grade targets as a means of optimising cash flows, which will assist with financial flexibility. The 26% increase in underground resources has helped to bolster the current underground developments. The progress made during the year provides a strong platform for further exploration success in 2019 and we will provide regular updates to the market as the drilling programme progresses.

**Exploration**
Production from the Group's refractory reserves will enable the Company to process higher grade ores which have been previously proven untreatable at the Resin-in-Pulp (RIP) facilities. This gives us confidence in our ability to generate positive cash flows from our c.5.3Moz refractory reserves base. To replenish the resource and reserve base, the Company has carried out aggressive brownfield exploration.

At the beginning of October 2018, the Company received a permit from the Russian authorities to develop and mine the Elginskoye deposit which is considered a strategic deposit due to the size of its mineral resources base (JORC Resources of 2.8Moz at 1.1g/t). Elginskoye forms part of the Albyn cluster of assets with ore expected to be extracted from 2020. The reserves as currently defined are only for a proportion of the overall deposit. The remainder of the zone continues to be explored for additional mineral resources.

Additional high-grade refractory mineralisation for potential open pit extraction has been discovered at the down-dip extension at Promezhutochnaya (Pioneer). Early stage exploration at Katrin (Pioneer) has identified a prospective gold deposit in the east. Further down dip extensions for potential underground mining were also identified at Albyn and a new zone of gold mineralisation was discovered near Kazimirovskaya (Albyn). We are hugely encouraged by the prospectivity of our existing exploration projects which together have the potential to supply the POX Hub for a significant period into the future.

**Production and Costs**
For 2018 Group production amounted to 422.3koz, including gold in concentrate, a modest decrease on the previous year (439.6koz) which was in line with the plans given the switch to increased mining of refractory ores at Malomir ahead of commissioning the POX Hub and the decline from Pokrovskiy which has come to the end of its economic life after producing c.2Moz of gold for the Group.

This result is in-line with the Company's revised guidance for the year of 420 – 450koz including concentrates. Of the three mining centres, Albyn produced 36% of total gold production for the year, while Pioneer contributed 32%. Malomir gold doré production amounted to 18% of the total, with an additional 12% in the form of gold in concentrate.

Total cash costs, one of our Alternative Performance Measures, increased a modest 6% due to the effects of Rouble denominated inflation and suboptimal mining performance in the first half of the year. These increases were partially offset by higher grades and recoveries at Pioneer and Malomir as well as Rouble depreciation over the course of the year.

**Health and Safety**
We are sad to report that there was one fatality in 2018. An employee travelling from the accommodation blocks to the plant at Albyn died in an accident. The safety of our employees remains our number one priority. With the commissioning of the POX Hub and the increased activity at our underground mines, the need for stringent safety standards has become ever more important. Technical inspection of the pressure vessels in the POX Hub has been conducted and an industrial safety review was carried out.

The Group has put employees through extensive training to minimise the probability of any accidents following the inauguration of the POX Hub. This took place at the Pokrovskiy Mining college and included both theoretical courses and training on a POX simulator.

All employees are trained in safety when they join the Company and must undergo additional refresher courses and pass health and safety exams. Our staff receive tailored training in the event of an accident which incorporates the findings of investigations into specific assignments outside their daily routine.

**Outlook**
Although 2018 has been a year of notable success, there is never a time for complacency and the focus going forward remains on delivering increased cash flow and the deleveraging of the Group's balance sheet. This requires that we focus harder than ever on our operations and to optimise capacity utilisation at the POX Hub through the supply of concentrate from our own refractory reserve base as well as from third parties.

In 2019 we are targeting 450,000 – 500,000oz of gold production and believe the final number may be improved upon through additional gold produced from third party concentrates. As mentioned, costs are a key focus for the Company and, while recognising the challenge of one-off costs associated with the ramp-up of the POX Hub, we are seeking to contain costs within a US$850-950/oz range for the year.

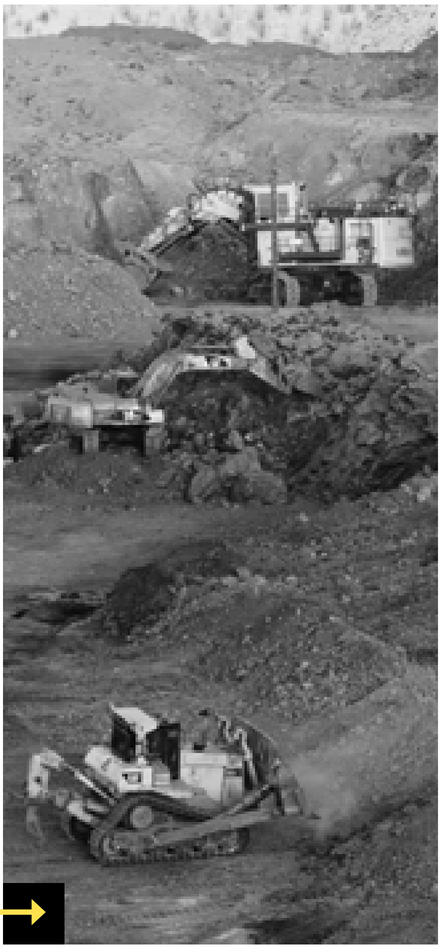
With respect to the POX Hub, our focus for 2019 will be on reaching full design capacity with stable operations and reliable sources of concentrate so that this asset will be achieving its targeted operating costs. In parallel, our geological team will be carrying out further work to discover new orebodies as well as building upon the earlier delineation of high-grade refractory orebodies. Our objective is to constantly improve upon the quality and quantity of the Company's refractory reserves and resources.

From 2020 onwards, we believe these measures will ensure the Company regains its status as one of the leading gold producers in Russia, with a strengthened balance sheet, attractive cashflows and enhanced returns to our shareholders.

**Dr Pavel Maslovskiy**
Chief Executive Officer

24 April 2019

# Our Business Model



## 1. Exploration and Evaluation

We have a strong track record of identifying, exploring and appraising deposits with commercially viable concentrations of gold in both brownfield and greenfield sites. These deposits replenish and increase our resource base.

## 2. Mining and Development

Our operating experience allows us to achieve optimal ore extraction from our open pit and underground assets. This, along with the scale of our asset base, enables us to increase processing capacity and operating profits.

## 3. Processing

We have harnessed industry leading expertise in processing technologies to develop and construct a Pressure Oxidation Circuit at Pokrovskiy (the POX Hub). Our research centre, RDC Hydrometallurgy, defined optimal processing parameters for the plant and continues to refine processing technology for all the Company's ore processing installations.

# 4.
# Production

We produce gold doré bars which are sent to refineries for smelting into bullion. Currently, all of the doré produced at Petropavlovsk is sold to banks in Russia.

# 5.
# Mine Closure and Rehabilitation

Mine closure planning is integrated into the asset life cycle. This ensures responsible environmental compliance and the sustainable development of mines in the project areas.

**The Cycle**
Our business model was designed to implement our strategy and create value for all stakeholders, with sustainable development embedded at every stage of the mining lifecycle, from identifying prospective areas to exploration, development, mining and processing.

Our key performance indicators appear throughout this report and introduce the operational, sustainability and financial sections respectively (pages 35, 69 and 84).

# Our Strategy

The Group's current strategy is focused on the following aspects

## Maintain and expand Reserves and Resources

The commissioning and ramp-up of the POX Hub has reinforced the added value of refractory ore exploration at Petropavlovsk. Mining costs are potentially reduced as a result of lower stripping ratios associated with refractory ores. Furthermore, the availability of known refractory deposits in the Amur region results in lower discovery costs which also increases the possibilities for resource expansion.

The Group aims to identify and develop new resources and reserves through its exploration programme in order to offset depletion and expand the total resource to support long term growth. Exploration potential exists for the discovery of further significant open pit resources, particularly south and south west of Pioneer. There are also a number of potential exploration targets at Albyn, of which Ulgen, Yasnoye and Leninskoye are the most significant. There is also exploration potential on down dip extensions of main Albyn ore body. Most of the licence area remains underexplored and is highly prospective.

The Group's short-term reserves and resources strategy focuses on:

– Maintaining reserves of non-refractory and refractory ore through exploration at or adjacent to the Group's current mining operations to continue efficient utilisation of current RIP processing capacity; and

– Further exploration to expand the reserves and resources at the existing underground operations at Pioneer and Malomir.

The Group's longer-term reserves and resources strategy focuses on:

– Further exploration of the identified refractory targets at Pioneer and Malomir;

– Further exploration to establish underground reserves and resources at Albyn and its satellites and to identify further underground targets in the Pioneer and Malomir areas; and

– Potential licence acquisitions adjacent to existing Group infrastructure to achieve growth with minimal additional Capital Expenditure◆.

## Unlock the value creation potential of the POX Hub

The POX Hub has opened up a whole swathe of new opportunities for the Group to exploit both in the short and long term.

In the short term, the commissioning of the POX Hub and associated flotation infrastructure at Malomir have unlocked the refractory ore which forms 60% of the Group's current resource base. The optimisation of the Malomir flotation plant has increased the grade and decreased the bulk of the concentrate for the POX Hub, reducing transportation and processing costs.

In the longer term, the ability to process refractory ore has opened up the prospect of acquiring further exploration ground in the underexploited Mongolo-Okhotskiy mineralised belt which hosts a number of large gold deposits, including Sukhoi Log and Taseevskoye. Once the POX Hub is expanded to four autoclaves, it will have a total processing capacity of up to c.500ktpa which leaves open the possibility of processing third party ore. This can potentially be further expanded to 650ktpa.

The POX pilot plant and research facilities are used to provide metallurgical tests and consultancy services to third parties including Outotec, Polyus Gold, Kazzink, Kazakhmys and Norilsk Nickel.

## Cost optimisation and operational efficiency

The Group's strategic plan for the identification and implementation of operational efficiencies and cost optimisations focuses on new projects and continued operations. Two flotation lines have successfully been put into production at Malomir producing a concentrate at c.36-40g/t which is a significant improvement on the original design. This will engender cash flow improvement due to reduced processing and transportation costs (more gold, less material to process).

Other project cost initiatives include:

- Developing full-scale high-grade underground operations at Malomir and Pioneer;
- Creation of extra capacity at the POX Hub for potential processing of material from third party suppliers; and
- Optimization of waste stripping when mining refractory ore bodies.

The Group is also committed to continuous operational improvements, aimed in part at increasing throughput and recovery rates and comprehensive cost control.

## Strengthen the balance sheet and liquidity position

Management continues to look for ways to de-risk the Group's development plans, including focusing on improving cash flow generation and optimising its capital structure.

As part of this strategy, the Group expects (on the basis of the current gold price and exchange rates), to generate strong and sustainable net operating cash flows to enable the Group to finance its planned Capital Expenditure◆ programme of approximately US$45 to US$55 million in 2019.

The Company has US$100 million convertible bonds due on 18 March 2020 which it considers can be repaid directly out of net cash flow from operating activities. Along with its advisors, Management are exploring options with respect to the bond repayment in order to optimise its cash position while taking into account the Company's various strategic growth and development objectives and opportunities.

The refinancing of the IRC debt, completed in March 2019, was a major milestone in de-risking the Group's finances. Successful negotiation of a new US$240 million facility with Gazprombank yielded more favourable terms than its previous ICBC facility and provides IRC with an extended period to repay this through to 2026. The new facility de-risks the Group's liability due to longer maturity and a more relaxed amortisation schedule. The Gazprombank facility has enabled a US$63 million aggregate cash inflow for Petropavlovsk as repayment by IRC of approximately US$57 million of two bridge loans provided by Petropavlovsk in 2018 and US$6 million in guarantee fees. A further US$5 million in guarantee fees is payable no later than 31 March 2020.

## Continuous improvement of environmental health and safety standards

The health and safety of its workforce is a top priority for the Board and management of Petropavlovsk. The Group is focused on the continual improvement of health and safety performance to ensure a safe working environment for them. Risk management strategies are being implemented based on valid data and sound science to reduce the number of The Lost-Time Injury Frequency Rates (LTIFRs) and accidents.

An ongoing campaign is in progress to go beyond compliance with the regulatory framework and to develop a safety culture within the Group based on behavioural-based safety at the Group operations. Petropavlovsk's objective is to minimise the risk of accidents and occupational illnesses, and to aim for zero fatalities.

In 2018, employees were trained at the Pokrovskiy Mining College in the operation of the POX Hub. The course completed was 'Autoclave Oxidative Leaching of Gold-bearing Sulphide Flotation Concentrates'. Work has begun on the organisation of the Emergency Rescue Team, with certification of rescuers and protocols planned for Q2 2019.

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 the Board, which then provides an immediate response and action plan. The Board's new Safety, Sustainability & Workforce Committee (SS&W Committee) was constituted on 12 November 2018 and will meet regularly. 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.

# Market Overview

**How did the gold price perform in 2018?**
The Gold PM Fix price declined by 3% in 2018, commencing the year at US$1,312/oz and closing at US$1,279/oz. The precious metal traded within a range of US$1,178/oz – US$1,355/oz, averaging US$1,268/oz for year, a 1% increase on 2017. On a relative basis, while gold comfortably outperformed silver (-12%), platinum (-16%) and the Bloomberg Commodity Index (-8%), it could not quite match the returns generated by palladium (+17%).

**What factors may have influenced the gold price during the year?**
2018 was an eventful year in terms of ongoing political and macroeconomic newsflow. The US pulled out of the Iran nuclear accord, and the trade war between the US and China escalated. A poorly communicated December rate hike by the US Federal Reserve, was followed by the longest US government shutdown in history. In Europe, the Italian elections resulted in a backlash against the establishment and a hung parliament, and the ECB announced the end of quantitative easing. Ongoing, tortuous Brexit negotiations have rattled European markets. There was also an increase in tension between Turkey and Russia over Syria. Finally, global stocks suffered their worst losses since the 2008 financial crisis prompting observations that the long bull market rally may be coming to an end.

**What were the notable demand trends during 2018?**
Broadly speaking global gold demand increased by 4% in 2018, to c.140Moz (2017: c.134Moz), primarily influenced by central bank purchases but also by an uptick in bar and coin demand.

Overall, the jewellery sector showed no material change from 2017 (c.71Moz), accounting for around half of total gold demand at 71Moz. On a combined basis, the biggest gold jewellery consumers are China (c.22Moz) and India (c.19Moz), together accounting for 57% of global demand. Although annual Chinese jewellery demand increased by 3%, Q4 2018 was impacted by consumer sentiment over economic growth, the ongoing trade war with the US and poor stock market performance - the Shanghai Composite Index closed down 25% in 2018. Indian demand was broadly stable, but high gold prices in local currency terms affected consumer sentiment. Meanwhile, notwithstanding economic and stock market concerns, US jewellery demand rose to 4.1Moz, up 4% on 2017 levels (c.4.0Moz).

Appetite for gold jewellery in Turkey, Iran and the UAE was impacted by sanctions (Iran), inflation and employment concerns (Turkey) and the introduction of VAT (UAE).

Investment demand is the second largest market and includes bars, coins and exchange traded funds (ETFs). While physical bar demand remained broadly flat in 2018 at c.25Moz, gold coin demand rose by more than a quarter to 7.6Moz (2017: 6.0Moz). On a combined basis, China (9.8Moz) and India (c.5.2Moz) accounted for 43% of 2018 bar and coin demand. India saw its bar and coin demand decline 4% to 5.2Moz, in part due to a weaker Rupee and a strong local stock market (2017: 5.4Moz), while demand in China was roughly flat at 10Moz. However, Iran saw an increase in demand of more than 200% to 2.0Moz (2017: 0.6Moz), on the back of currency weakness, inflation and political instability. UK demand came in at c.0.4Moz, and while not a substantial number in itself, this was some 12% higher than in 2017 (c.0.3Moz). The weaker pound alongside ongoing Brexit related issues may have encouraged investors to buy bars and coins. In contrast, US demand declined 20% to c.0.9Moz (2017: 1.1Moz) due to a buoyant equity market during the first three quarters of 2018, alongside the expectation of further Federal Reserve rate increases going forward.

An additional sub-category of investor demand is Exchange Traded Funds (ETFs). According to data compiled by UBS, global ETFs added 2.3Moz to their holdings (+3%), commencing the year at 74.0Moz and finishing 2018 at 76.3Moz, equivalent to c.US$98 billion in value as at 31 December 2018. With c.25Moz of gold held, the SPDR Gold Shares is the largest gold ETF in the world.

In terms of official sector demand, central bank purchases totalled c.21Moz in 2018, up more than 70% on 2017 (12Moz). The quantity acquired is significant in that it is the highest level of central bank demand for almost half a century. With gold viewed as a safe haven asset class which can be used effectively to help diversify reserves, Russia, Kazakhstan, Turkey and India all added to their existing holdings. Russia was a significant buyer, acquiring c.8.8Moz (total official reported holdings: c.68Moz). This is of particular interest as the Central Bank of Russia views gold as a key asset in the face of political and economic uncertainty and its gold reserves have increased for 13 consecutive years, growing to 19% of total reserves. Turkey purchased c.1.7Moz (total official reported holdings: c.8.2Moz) re-entering the market after a 25-year absence, Kazakhstan added c.1.6Moz (total official reported holdings: c.11Moz), while India added c.1.3Moz (total official reported holdings: c.19Moz).

**What were the key takeaways in terms of gold supply?**
In its tenth year of annual growth, total gold supply increased by 1% in 2018 to 144Moz (2017: 143Moz), on the back of record mine production. Gold output in Russia (the world's third biggest producer by volume) saw a rise in output of 10% year on year, in part due to government support by way of tax incentives, loans at attractive rates and a waiver on royalty payments. This was in contrast to Chinese gold production (China is the world's largest gold producer), which fell by 9% compared to 2017, due to stricter environmental regulations being enforced, resulting in the scaling down and closure of some smaller operations. It is also worth mentioning South Africa, where production declined by 18%, impacted heavily by a number of factors, including industrial action. Recycling ticked up too by just over 1% to 37.7Moz (2017: 37.2Moz).

**How did the RUB perform against the USD?**
While Petropavlovsk's gold sales are denominated in US dollars (US$), approximately 85% of the Group's costs are Rouble (RUB) based. A weaker RUB is beneficial for the business because operating costs are lower when translated into our reporting currency.

From 10th January 2018 to 30th December 2018, the RUB depreciated by c.22%, trading within a range of 55.7RUB to 70.0RUB per US$, commencing the year at 57.0RUB and closing at 69.5RUB. The strength of the Rouble has often been correlated to the movement of oil prices, and, as such, lower oil prices in Q4 2018 may be one of the factors behind the currency's performance.

**How did the oil price fare in 2018?**
Oil prices increased steadily during the first three quarters of 2018. This trend began to reverse after Brent crude hit a 2018 high of c. US$86 in the first week of October finishing the year down 20% overall. Several factors were responsible for the Q4 price decline. Uncertainty over trade policy became a drag on economic activity and in October the International Monetary Fund (IMF) cut its forecast for average oil prices on the back of lower global growth in 2018/19 of 3.7% (down from an earlier forecast of 3.9%). Also, the US moved to impose sanctions on Iran's oil in November, but stopped short of market

expectations on an outright export ban by granting temporary waivers which allowed Iran to trade oil with eight specified countries. The price of oil fell in response to this news when traders realised the sanctions were not as harsh as expected. During 2018, fuel costs accounted for approximately 15% of Petropavlovsk's total operating cash expenses.

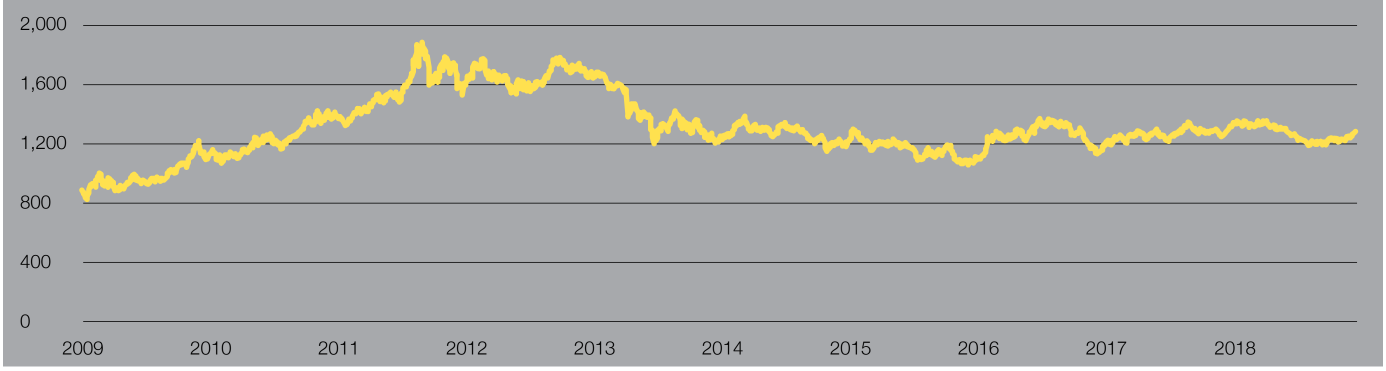
**How has gold performed in 2019?**
Rising a modest 0.7% during the first three months of 2019, gold prices have proven remarkably resilient to the emergence of a dialogue between the US and China over tariffs, strong stock market performance and a slightly stronger USD. For the remainder of 2019, gold prices will be influenced by a range of factors, including inflation data, interest rates (the US Federal Reserve is expected to hike During the first two months of 2019, gold rates further in 2019), USD strength, stock market performance / volatility, consumer confidence and geopolitical risk.

**The average annual gold price increased by 1% in 2018 to US$1,268/oz** (in US$/oz)

| | |
|---|---|
| **2018** | **1,268** |
| 2017 | 1,257 |
| 2016 | 1,248 |
| 2015 | 1,160 |
| 2014 | 1,265 |
| 2013 | 1,410 |
| 2012 | 1,668 |
| 2011 | 1,570 |
| 2010 | 1,224 |
| 2009 | 973 |

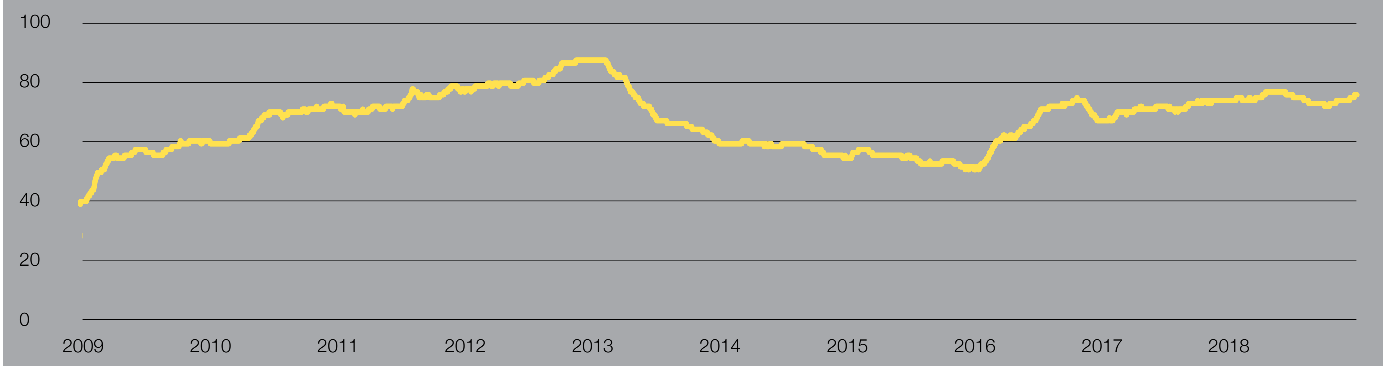
**Source:** *The London Gold Market Fixing Limited. Data provided for information purposes only*

**Gold depreciated by 3% in 2018** (in US$/oz)




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

**Gold ETF's finished 2018 with combined holdings of approximately 76Moz, up 3% on the year** (in Moz)




**Source:** *UBS*

# Principal Risks and Mitigation

## 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.

Following the constitution of the new Board on 29 June 2018, the Board considered the Group's risks and its mechanisms and processes for handling these risks. The Board discussed the principal risks for the Group, differentiating those where action can be taken to mitigate and control such risk from those outside of the Company's control, where risk can be monitored but not controlled. Whilst considering risks, the Board takes into account its responsibility to all of its stakeholders, including shareholders and bondholders, the workforce, the local communities in which the Group operates, and local and federal government.

**Monitoring of risks**
The new Board has designed a Group risk management system whereby the Group risks are monitored by the Board, with the exception of (i) financial risks which are in the first instance monitored by the Audit Committee and (ii) health, safety and environmental ('HSE') risks which are in the first instance monitored by the Safety, Sustainability & Workforce Committee ('SS&W' Committee). The Audit and SS&W Committees report any material risks to the Board which considers these risks and monitors the mitigating action being taken to address and manage these risks. The risk management system aims to ensure that the Board's attention is focused on those risks with the highest potential impact.

In addition, the newly constituted Executive Committee, details of which are provided on pages 100 and 101, is a key component of the Group's risk management system. The Executive Committee has responsibility for evaluating risks in terms of potential impact and financial cost, with reference to the Group's strategy and the operating environment. The Executive Committee also focusses on any new and emerging risks and presents its findings to the Board, Audit Committee and SS&W Committee as appropriate.

Responsibility for each risk category is delegated to a member of the Executive Committee (a 'Risk Owner'). Each Risk Owner is responsible for:

– Identifying risks in their risk area;

– Assessing the likelihood of occurrence and potential impact on the Group of each risk; and

– The implementation of mitigating controls and action plans which seek to remove or minimise the likelihood and impact of the risks before they occur.

Each Risk Owner reports their findings to the Executive Committee.

The Board recognises that some risks by their nature cannot be mitigated by the Company.

A diagram detailing the Group's Risk Management Framework is provided below.

*Principal risks relating to the Group*
A table summarising Principal Risks is provided below, followed on pages 20 to 33 by further information on the potential impact of each specific risk and mitigating measures in place.

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

Details of the Group's internal control systems which support this risk management system are outlined on page 120.

**Changes from risks identified in the 2017 Annual report**
During 2018 the most critical risks to the Group related to:

(i) Commissioning of the POX Hub; and

(ii) The Company's guarantee against the project loan facility provided to K&S by ICBC to fund the construction of IRC's iron ore mining operation at K&S (the 'ICBC Facility').

At the date of this report the Board is pleased to note:

(i) The successful commissioning of the POX Hub, within the revised timeframe and within budget; and

(ii) The approval of the Company's shareholders, on 12 March 2019, to the Board's recommended proposal to guarantee the obligations of K&S under two facility agreements with Gazprombank JSC. The new Gazprombank facility which has refinanced the ICBC Facility, is on more favourable terms to the Company, IRC and K&S because it extends the maturity of the debt obligations, therefore reducing the schedule repayment amounts for K&S and allowing the repayment of those obligations to be made over an extended period of time. The Gazprombank facility enables IRC to repay the Company c.US$57m as full repayment of two bridge loans extended to IRC by Petropavlovsk during 2018 together with the payment by IRC to Petropavlovsk of the outstanding c.US$6 million guarantee fee, significantly improving the Company's cash position. As at the date of this report the guarantees provided by the Company to Gazprombank total US$160m, compared with US$234m under the ICBC Facility guarantee as at 31 December 2017.

## New risks

The Board considers, and is conscious of, new risks. Whilst the successful commissioning of the POX Hub is a considerable achievement, the Board is mindful that this new and complex metallurgical facility brings added challenges particularly in the area of process safety. Accordingly, this is reviewed as a new specific Health & Safety Risk and will be a focus of the Safety, Sustainability & Workforce Committee during 2019. Further details are provided in the Sustainability Report contained within this Annual Report.

In addition, the Board has considered the potential impact on the Company of an IT breakdown or cyber-attack and the likelihood of such a risk occurring. The most significant risk from this perspective relates to the operation of the POX Hub. The Board has obtained confirmation from the Head of the Group's IT Department of the actions that have been undertaken to mitigate this risk and the Board is content that this is adequate and appropriate. The Board will continue to monitor this risk.

Given the current focus on Brexit and the guidance provided by the Financial Reporting Council, the Board has considered the potential risk of Brexit on the Company and has concluded that there are no obvious, company-specific risks to Petropavlovsk's operations or financial results arising directly from the Brexit process.

The Board has also included 'Loss of Personnel' as a Principal Risk in the table opposite. The resignation of Dr Maslovskiy in July 2017, following the Board changes in June 2017, had a detrimental impact on the Group's operations, resulting in a disappointing operational performance in H1 2018, low workforce morale and, critically, to a potential delay in the commissioning of the POX Hub. Dr Maslovskiy's return as CEO restored authoritative leadership throughout the Group and reinvigorated the senior executive team, leading to improved H2 2018 operational performance and the commissioning of the POX Hub on time and within the revised timeframe.

Given Dr Maslovskiy's importance to the Group, the Board and the Nominations Committee consider this to be a principal risk and that mitigating actions including appropriate remuneration and well considered succession planning are essential. The Board also recognises the potential risk from the loss of other long-serving members of the Executive Committee and the senior management team.

Finally given the commissioning of the POX Hub and the progress at the Group's underground mining operations, risks relating to these matters have been moved from 'Project Related Risks' to 'Operational', 'Processing' and 'Safety & Environmental' as appropriate.

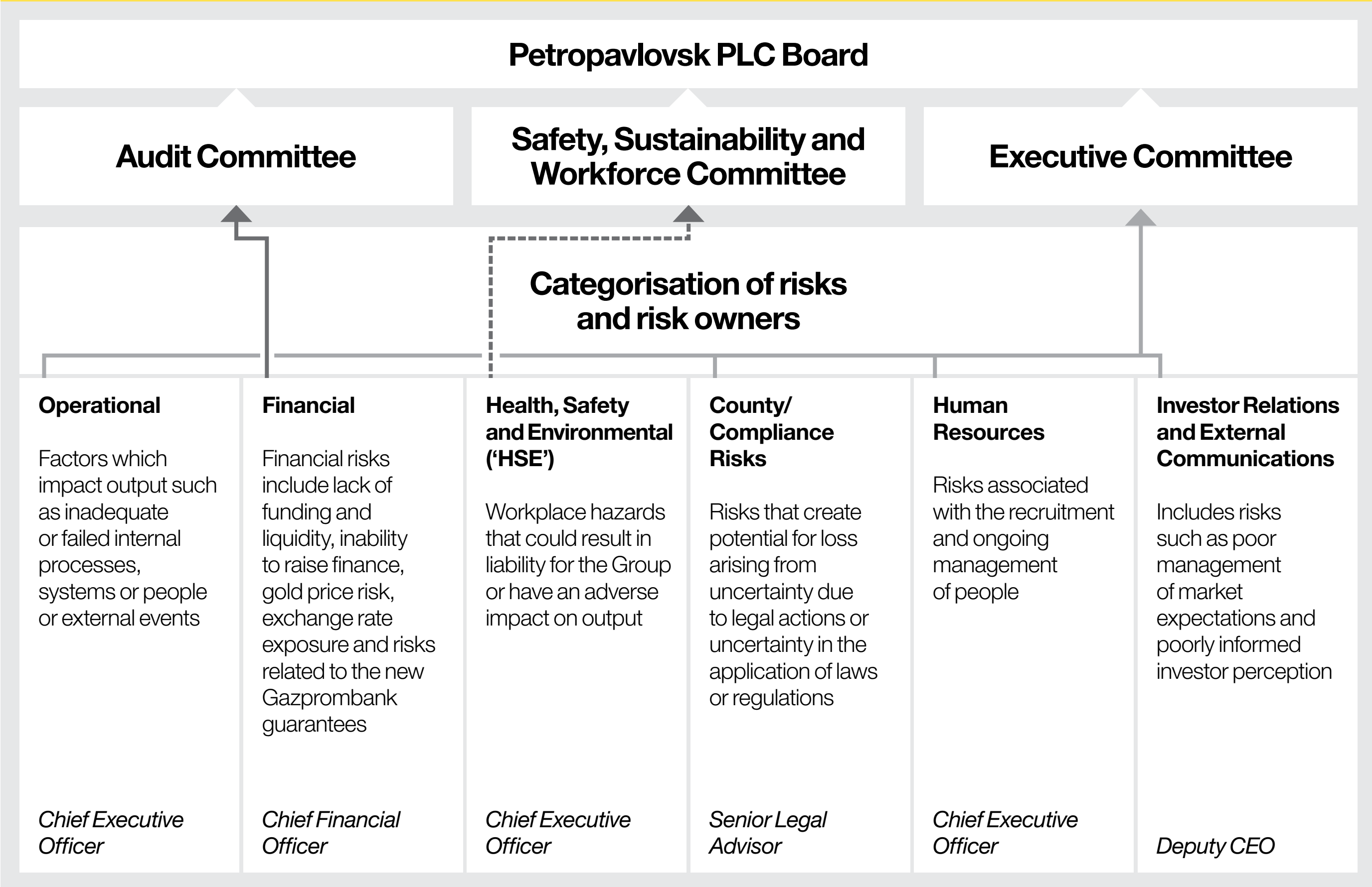
# Principal Risks and Mitigation continued

↑ **Increased risk** → **No change** ↓ **Decreased risk**

**Table Summarising Principal Risks**

| Risks | Significant factors 2018 and 2019 | Overall change from prior year |
|---|---|---|
| **Operational**<br>a) Production<br>– Weather<br>– Delivery of equipment<br>– Stripping ratios<br>b) Exploration | The successful commissioning of POX in Q4 2018 has unlocked access to c.12.3Moz of refractory gold resources in highly prospective, easily accessible, low stripping deposits. | ↓ |
| **Processing**<br>– Mechanical failure of POX Hub<br>– Failure to reach expected recovery<br>– High levels of preg-robbing | POX is a new and complex metallurgical facility which brings added challenges. | ↑ |
| **Financial**<br>– Lack of funding and liquidity<br>– Gold price<br>– Exchange rate<br>– Guarantee of IRC's debt | – IRC's increased financial stability following its Gazprombank refinancing and the recent increase in the iron ore price, along with new guarantee arrangements reducing the Company's risk exposure to IRC;<br>– The new forward gold sales contract with Gazprombank has provided additional liquidity to the Company; and<br>– Options are being considered for bringing forward the construction of the Pioneer flotation plant. | ↓ |
| **Health, Safety & Environmental**<br>– POX<br>– Underground mining<br>– Contamination | The Company has constituted a new Safety, Sustainability & Workforce Committee, which amongst other matters will focus on the new safety challenges arising from the Group's POX Hub and underground mining operations. | → |
| **Loss of Key Personnel**<br>– The Company is dependent on Dr Maslovskiy and other long-serving members of the senior executive team | Re-appointment of Dr Maslovskiy as CEO on 29 June 2018.<br>Succession Planning on the Agenda of the Nominations Committee and the Board<br>Appropriate remuneration considered and determined by the Remuneration Committee. | ↓ |
| **Country/Compliance**<br>– The Group requires various licences and permits in order to operate<br>– Risks associated with operating in Russia | The Board will continue to monitor these issues. | → |

## Risk management framework



# Table of principal risks

## Operational risks

**PRODUCTION RELATED RISK – Failure to achieve the Group's production plan**

| Risk | Description and potential impact | Potential impact/ Change since 2017 |
| --- | --- | --- |
| **Risk to production from:**<br>**i) Weather**<br>**ii) Delivery of equipment**<br>**iii) Stripping ratios** | The Group's assets are located in the Russian Far East, a remote area that can be subject to severe climatic conditions. Severe weather conditions, such as cold temperatures in winter and torrential rain, potentially causing flooding in the region could have an adverse impact on operations, including the delivery of supplies, equipment and fuel; and exploration and extraction levels may fall as a result of such climatic factors.<br><br>The Group relies on the supply and availability of various services and equipment in order to successfully run its operations. Delay in the delivery or the failure of mining equipment could significantly delay production and impact the Group's profitability.<br><br>The Group is dependent on production from its operating mines (both open pits and underground) and from POX in order to generate revenue and cash flow. | **High** |

**The symbols indicate how the Company considers that these risks have changed since 2017.**

**Increased risk** **No change** **Decreased risk** **New risk**

| Mitigation/comments/ 2018 Progress | Additional information |
|---|---|
| Preventative maintenance procedures are undertaken on a regular and periodic basis to ensure that machines will function properly in extreme cold weather conditions; heating plants at operational bases are regularly maintained and operational equipment is fitted with cold weather protection to assist in ensuring that equipment does not fail as a result of adverse weather conditions.<br><br>Pumping systems are in place and tested periodically to ensure that they are functioning.<br><br>Management monitor natural conditions in order to pre-empt any disaster and in order that appropriate mitigating action can be taken expediently. The Group aims to maintain several months of essential supplies at each site. Equipment is ordered with adequate lead times in order to ensure timely delivery of equipment.<br><br>The Group has a number of contingency plans in place to address any disruption to services<br><br>In October 2018, mining in the first underground stopes of the main high-grade orebody at -5m MSL level caused unusually high water inflow into the +55m MSL sublevel and all work in the North East Bakhmut 3 area at Pioneer's underground mining operations had to be stopped until the flooding was under control. Ore mining at North East Bakhmut resumed in January 2019.<br><br>The successful commissioning of the POX Hub commenced in November 2018. POX is a proven technology facilitating large scale, long life projects and with a reasonable cost profile.<br><br>During 2018 the Group delivered production in line with its revised guidance. | Operational Performance on pages 34 to 43 |

# **Principal Risks and Mitigation** continued

## **Operational risks** continued

### EXPLORATION RELATED RISK

| Risk | Description and potential impact | Potential impact/ Change since 2017 |
|---|---|---|
| **The Group's activities are reliant on the quantity and quality of the Mineral Resources and Ore Reserves available to it.** | Exploration activities are speculative, time-consuming and can be unproductive. In addition, these activities often require substantial expenditure to establish Reserves through drilling and metallurgical and other testing, determine appropriate recovery processes to extract gold from the ore and construct or expand mining and processing facilities. Once deposits are discovered it can take several years to determine whether Reserves exist. During this time, the economic viability of production may change. As a result of these uncertainties, the exploration programmes in which the Group is engaged may not result in their replacement or expansion with new Reserves after their depletion from current production. | **High** |

| Mitigation/comments/ 2018 Progress | Additional information |
|---|---|
| The Group uses modern geophysical and geochemical exploration and surveying techniques. The Group employs a highly qualified team of geologists with considerable regional expertise and experience. They are supported by a network of fully accredited laboratories experienced in performing a range of assay work to high standards.<br><br>Group Mineral Resource and Ore Reserve estimates are prepared by a team of qualified specialists following guidelines of JORC Code 2012, which is one of the most recognised reporting codes. Mineral Resource and Ore Reserve estimates are subject to regular independent reviews and audits. The last full audit was completed in April 2017 by Wardell Armstrong International.<br><br>In addition, as a part of compliance with The Subsoil Law Group legislation, the Group also prepares reserve estimates following Russian GKZ guidelines. These estimates are subject to GKZ audits. Where possible, the Group reconciles GKZ and JORC estimates which provides additional assurance about the Company's Reserve estimates.<br><br>The Group employs a team of qualified mining engineers to undertake mine planning, complete open pit and underground mine design and production scheduling.<br><br>The success of the POX Hub has unlocked the Group's access to the 12.33Moz refractory Resources which support the Group's long-term growth objectives in doubling the average life of mine and sustaining its production profile. The Group continues to explore the potential for further mine life extension and production expansion. Exploration work has identified several prospective satellite refractory targets for further work at Malomir and Pioneer. A successful exploration campaign in 2018 yielded a 2% increase (before depletion and disposals) in JORC Mineral Resources across the Group's assets. This maintained the total Mineral Resource at 20.52Moz despite depletion of 0.49Moz due to mining and the disposal or surrender of several licences containing 0.3Moz JORC resources during the year. The increase is mainly attributable to additions at open pit and underground targets at Pioneer, Malomir and Albyn, including a 26% increase in resources potentially suitable for underground mining, from c.0.94Moz to c.1.19Moz. Potential resources for underground mining have been identified at Pokrovskiy and Albyn.<br><br>Successful near mine exploration identified a number of promising targets that warrant further exploration, which may result in an increase in Mineral Resources and possibly new Ore Reserves. | Exploration Update on pages 65 to 66<br><br>The POX Hub on pages 46 to 52 |

# Principal Risks and Mitigation continued

## Processing

| Risk | Description and potential impact | Potential impact/ Change since 2017 |
|---|---|---|
| **A mechanical or metallurgical failure of the POX Hub, including failure to reach expected recovery rates or high levels of preg-robbing could result in lower production and/or higher costs.** | POX is a new and complex metallurgical facility which brings added challenges.<br><br>If there is a failure in the POX process this could lead to lower production and/or higher costs which may have a detrimental impact on the Group's operating performance and financial condition.<br><br>The monitoring equipment used at the POX plant uses radioactive isotopes to monitor the processing. A failure to use the equipment correctly could result in contamination. | **New risk**<br><br>N |

| Mitigation/comments/ 2018 Progress | Additional information |
|---|---|
| The first two autoclaves which are the principal components of the POX Hub were successfully commissioned in December 2018, within the revised timeframe and have now been operational at design processing and gold recovery.<br><br>The Group's expertise in pressure oxidation is represented by RDC Hydrometallurgy, a scientific research centre based in St Petersburg with a POX pilot plant located in Blagoveshchensk.<br><br>In early 2018, a decision was made for RDC Hydrometallurgy to develop an advanced engineering course 'Autoclave Oxidative Leaching of Gold-bearing Sulphide Flotation Concentrates' for the Group's engineering and technical personnel and to install the only pilot autoclave installation in Russia. This simulation of the operator's workplace allowed trainees to learn to monitor and regulate all POX parameters.<br><br>For six months, the engineers and technicians from Pokrovskiy, studied the theoretical section of the course at the training centre of Pokrovskiy Mining College. They then practised on the simulator to be fully prepared for the real-life commissioning.<br><br>Safety requirements for the use of nuclear isotopes are exceeded only by the space industry. Therefore, for successful commissioning, it was necessary to fulfil a number of stringent requirements and conditions. The Group had to obtain a license to operate radiation sources in the POX Hub and appropriate training was organised for employees | The POX Hub on pages 46 to 52 |

# Principal Risks and Mitigation continued

## Financial risks

| Risk | Description and potential impact | Potential impact/ Change since 2017 |
|---|---|---|
| **Liquidity Risk** | The Group may need ongoing access to liquidity and funding in order to:<br>(i) Refinance or repay its existing debt as required;<br>(ii) Support its existing operations and extend their life and capacity; and<br>(iii) Invest to develop its refractory ore concentrate production and underground mining projects and exploration.<br><br>There is a risk that the Group may be unable to obtain necessary funding when required or that such funding will only be available on unfavourable terms.<br><br>The Group may therefore be unable to meet its business development objectives or financial commitments | **High** |
| **The Group's result of operations 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 would negatively affect the Group's profitability and cash flow and consequently its ability to develop its business. The market price of gold is volatile and is affected by numerous factors which are beyond the Group's control. | **High** |
| **Exchange rate fluctuations** | 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 revenues are generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. An appreciation of the Russian Rouble against the US Dollar tends to result in an increase in the group's costs relative to its revenues whereas the depreciation of the Russian Rouble against the US Dollar tends to result in lower Group costs relative to its revenues.<br><br>In addition:<br>– A portion of the Group corporate overhead is denominated in Sterling. Therefore, adverse exchange rate movements may materially affect the Group's financial condition and results of operations.<br>– 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. | **High** |

| Mitigation/comments/ 2018 Progress | Additional information |
|---|---|
| In the event that the Group requires additional finance for shorter term liquidity purposes, including for capital expenditure purposes, the Group may have access to forward gold sales funding. This may be advantageous, depending upon the Group's access otherwise to debt or equity finance and the terms on which these may be available.<br><br>In December 2018, Petropavlovsk's liquidity position was significantly strengthened after entering into a number of gold sales contracts with Gazprombank, for sales of c.175Koz in 2019-2020. These arrangements allow the Company to receive advance payments for 70% of gold with shipment to Gazprombank over a period commencing six months following receipt of an advance by the Company and ending no later than December 2020. Theses sale contracts have provided the Group with flexibility during the POX plant ramp up period. | Chief Financial Officer's Statement on pages 87 to 95 |
| The Chief Financial Officer constantly monitors the gold price and influencing factors on a daily basis and consults with the Board as appropriate.<br><br>The Group has a hedging policy and hedges a portion of production as the Chief Financial Officer and Board deem necessary.<br><br>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 2018.<br><br>Forward contracts to sell an aggregate of 200,000oz of gold at an average price of US$1,252oz were outstanding as at 31 December 2018.<br><br>A higher gold price environment may allow the Group to consider other hedging arrangement options in 2019. | Market Overview on pages 14 to 15<br><br>Chief Financial Officer's Statement on pages 87 to 95 |
| The average year-on-year depreciation of the Russian Rouble against the US Dollar was approximately 7%, with the average exchange rate for 2018 being RUB62.68 : US$1 compared to RUB58.32 : US$1 for 2017.<br><br>The Group's policy is to keep under review possible options for exchange rate hedging, although it currently has not entered into any such transactions. | Chief Financial Officer's Statement on page 95 |

# **Principal Risks and Mitigation** continued

## **Financial risks** continued

| Risk | Description and potential impact | Potential impact/ Change since 2017 |
|---|---|---|
| **Risk that:**<br>– **Funding may be demanded from Petropavlovsk under a guarantee provided in relation to a project finance facility provided to K&S a wholly owned subsidiary of IRC.**<br>– **K&S will not be able to service the interest and meet the repayments due on its loan due to insufficient funds arising from a decrease in the iron ore price or operational issues at the K&S site**<br>– **Risk that further issues delaying the ramping up of the K&S facility and/or a decrease in the iron price could result in a decrease in the value of the Group's shareholding in IRC.** | As at 31 December 2018, Petropavlovsk had 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$169m was outstanding as at 31 December 2018 (2017: cUS$234m).<br><br>In the event that K&S defaulted on its loan, Petropavlovsk may have been liable to repayment of the outstanding loan under the terms of the guarantee and other Group indebtedness may have become repayable under cross-default provisions.<br><br>Due to actions taken by IRC and the Company during 2018 (see Mitigation/Comments) this risk has substantially reduced.<br><br>However due to the guarantees provided by the Company to Gazprombank, the Group's going concern status remains sensitive to IRC's ability to comply with covenants within the new facilities and generate sufficient cash flows from its K&S mine. | **High**<br>↓ |

| Mitigation/comments/ 2018 Progress | Additional information |
|---|---|
| – In June and December 2018, the Group provided IRC with bridge loans totalling c.US$57m. These funds were used by IRC to pay two schedule payments to ICBC.<br>– On 19 December 2018, K&S signed two new broadly identical facility agreements with Gazprombank (the 'Facility Agreements') whereby Gazprombank would provide K&S with a US$240m facility for the purposes of repaying in full the outstanding project finance facility K&S had with ICBC and repaying the two bridge loans provided by Petropavlovsk to IRC (the 'Gazprombank Facility').<br>– Pursuant to the Facility Agreements, Petropavlovsk was to guarantee the obligations of K&S up to an initial amount of US$160m through a series of five guarantees over the life of the Gazprombank Facility. These guarantees were entered into by the Company and Gazprombank on 15 February 2019, with the effectiveness of each of the guarantees being conditional upon shareholder approval being obtained at a General Meeting. Such Shareholder approval was obtained on 12 March 2019.<br>– The Gazprombank Facility has been drawn down and has enabled IRC to:<br>– Repay in full the sum of approximately US$169m outstanding under the ICBC Facility; and<br>– Repay Petropavlovsk the Russian Rouble equivalent of approximately c.US$57m, in addition to any accrued interest and fees, as full repayment of the two bridge loans.<br>– The Gazprombank Facility will also enable IRC to fully pay guarantee fees of c.US$6 million, owing to Petropavlovsk in relation to the guarantee provided for the ICBC facility (c.US$4.5 million of which has been paid to date).<br>– The risk of K&S defaulting on its loan, and hence the risk that Petropavlovsk may be liable to repay the outstanding loan, has been reduced by K&S entering into the Gazprombank Facility and repaying the ICBC Facility because:<br>– The Gazprombank Facility provides for a significantly more relaxed amortisation schedule compared to that under the ICBC Facility; and<br>– Better aligns with the proposed ramp up of K&S and the revenues that are anticipated to be generated by it.<br>– The guarantee provided by the Company has decreased to US$160m as at the date of this Annual Report. However in certain circumstances the Company could have a maximum liability of US$240m under the guarantees.<br>Full details of the guarantees and the associated risks are contained in the Company's Circular to Shareholders dated 15 February 2018, a copy of which can be found on the Company's website at http://www.petropavlovsk.net/wp-content/uploads/2019/02/c114994CCL-pfp.pdf | IRC on page 67<br>Audit Committee Report on page 116<br>The Company's Circular to Shareholders dated 15 February 2019, is available at www.petropavlovsk.net |

## Health, Safety & Environmental Risks

| Risk | Description and potential impact | Potential impact/ Change since 2017 |
|---|---|---|
| **The Group operates potentially hazardous sites such as open-pits, underground mines, the POX Hub plant, exploration sites processing facilities and explosive storage facilities. The operation of these sites exposes its personnel to a variety of health and safety risks.** | 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. | **Medium/high** → |
| **Major pollution arising from operations include: air and water pollution, land contamination and deforestation.** | If the Group was involved in a major environmental event, potential impacts could include fines and penalties, statutory liability for environmental remediation and other financial consequences that might be significant.<br><br>Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community. | **Medium/high** → |

## Loss of Personnel

| Risk | Description and potential impact | Potential impact/ Change since 2017 |
|---|---|---|
| **The Company is dependent on Dr Pavel Maslovskiy, CEO and other long-serving members of the senior executive team** | The loss of key personnel to the Company may impact the morale of senior management and the workforce, the result of the Group's operations and a delay in the delivery of projects | **Medium/high** ↓ |

| Mitigation/comments/ 2018 Progress | Additional information |
|---|---|
| Board level oversight of health and safety issues occurs through the work of the Safety, Sustainability and Workforce Committee (SS&W Committee) which was constituted on 12 November 2018. The Committee is chaired by Mr Harry Kenyon-Slaney, Independent Non-Executive Director, who is assisted by his colleagues on the Committee namely, Dr Pavel Maslovskiy, Chief Executive Officer, Mr Damien Hackett, Independent Non-Executive Director, Mr Bektas Mukazhanov, Non-Executive Director and Dr Alya Samokhvalova, Deputy CEO. Mr Kenyon-Slaney's introduction to the Sustainability Report is provided on page 72 of this Annual Report. Members of the SS&W Committee visited the Group's operating mines in April 2019 during which they met with members of the workforce.<br><br>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 and where possible with international best practice. The Group continually reviews and updates its health and safety procedures in order to minimise the risk of accidents and improve accident response, including additional and enhanced technical measures at all sites, improved first aid response and the provision of further occupational, health and safety training.<br><br>The SS&W Committee has sought assurance from management that appropriate health and safety procedures have been enacted throughout the Group's POX Hub, not only to comply with Russian health and safety legislation but to adhere to international best practice, in recognition of the inherent risks within this new technology. The Group has provided extensive safety training to its employees on the operation of the POX process and in relation to its underground mining operations.<br><br>The Lost-Time Injury Frequency Rate (LTIFR) for 2018 of 2.52 accidents per 1 million man-hours worked compared with a LTIFR of 3.11 in 2017. Regrettably this included one fatality, a road traffic accident involving an employee at Albyn who was being transported to his place of work from his accommodation at the time of the incident.<br><br>Health & Safety targets are included in the annual bonus scheme for Executive Directors and the Executive Committee. The Remuneration Committee may also consider the Group's health and safety performance during the year when considering bonus plan payments. | Sustainability Report on pages 68 to 83 |
| The Company operates a certified environmental management system at all of its sites which meet international standards.<br><br>The Company has implemented a number of initiatives to monitor and limit the impact of its operations on the environment.<br><br>Cyanide and other dangerous substances are kept in secure storages with access limited only to qualified personnel, with access closely monitored by security staff. | Sustainability Report on pages 81 to 83 |

| Mitigation/comments/ 2018 Progress | Additional information |
|---|---|
| Succession Planning is on the Agenda of the Nominations Committee and the Board.<br><br>The Remuneration Committee will ensure appropriate remuneration. | Nominations Committee Report on page 110<br><br>Directors' Remuneration Report on pages 121 to 138 |

## Country and Compliance Risks

| Risk | Description and potential impact | Potential impact/ Change since 2017 |
|---|---|---|
| **The Group requires various licences and permits in order to operate.** | The Group's principal activity is gold mining which require it to hold licences which permit it to explore and mine in particular areas in Russia. These licences are regulated by Russian governmental agencies and if a material licence was challenged or terminated, this would have a material adverse impact on the Group. In addition, various government regulations require the Group to obtain permits to implement new projects or to renew existing permits.<br><br>Failure to comply with the requirements and terms of these licenses may result in the subsequent termination of licenses crucial to operations and cause reputational damage. Alternatively, financial or legal sanctions could be imposed on the Group. Failure to secure new licences or renew existing ones could lead to the cessation of mining at the Group's operations or an inability to expand operations. | **Medium/high**<br>→ |
| **The Group is subject to risks associated with operating in Russia.** | Actions by governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets could have an adverse impact on the Group's business or its future performance. Most of the Group's assets and operations are based in Russia.<br><br>Russian foreign investment legislation imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including in respect of gold reserves in excess of a specified amount or any occurrences of platinum group metals.<br><br>The Group's Pioneer and Malomir licences have been included on the list of subsoil assets of federal significance, maintained by the Russian Government ("Strategic Assets"). The impact of this classification is that changes to the direct or indirect ownership of these licences may require obtaining clearance in accordance with the Foreign Strategic Investment law of the Russian Federation. | **Medium/high**<br>→ |

| Mitigation/comments/ 2018 Progress | Additional information |
|---|---|
| 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. | |
| To mitigate the Russian economic and banking risk the Group strives to use the banking services of several financial institutions and not keep disproportionately large sums on deposit with a single bank.<br><br>The Group seeks to mitigate the political and legal risk by constant monitoring of the proposed and newly adopted legislation and adapt to the changing regulatory environment in the countries in which it operates and specifically in Russia. It also relies on the advice of external counsel in relation to the interpretation and implementation within the Group of new legislation.<br><br>The Group closely monitors its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government.<br><br>The Company's Articles of Association include a provision which allows the Board to impose such restrictions as the Directors may think necessary for the purpose of ensuring that no Ordinary Shares in the Company are acquired or held or transferred to any person in breach of Russian legislation, including any person having acquired (or who would as a result of any transfer acquire) Ordinary Shares or an interest in Ordinary Shares which, together with any other shares in which that person or members of their group is deemed to have an interest for the purposes of the Strategic Asset Laws, carry voting rights, exceeding 50 per cent. (or such lower number as the Board may determine in the context of the Strategic Asset Laws) of the total voting rights attributable to the issued Ordinary Shares without such acquisition having been approved, where such approval is required, pursuant to the Strategic Asset Law.<br><br>This risk cannot be influenced by the management of the Company. However, the Group continues to monitor changes in the political environment including the impact of any potential sanctions, and reviews changes to the relevant legislation, policies and practices. | |

# Operational Performance

# Key Performance Indicators

Our key performance indicators appear throughout this report and introduce the operational and sustainability sections and the CFO statement respectively (pages 35, 69 and 84).

### Mineral Resources (Moz)

| | |
|---|---|
| 2018 | 20.52 |
| 2017 | 20.86 |
| 2016 | 20.16 |

**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, and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, 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.

**Progress In 2018**
The successful exploration campaign in 2018 maintained the total Mineral Resource at 20.52Moz despite a depletion of 0.79Moz by mining and disposals. Additions to the resource base at both open pit and underground targets at Pioneer, Malomir and Albyn, included a 26% increase in resources potentially suitable for underground mining. Total refractory resources increased by c.28%, predominantly via the re-classification of transitional material which was potentially amenable for RIP but is now deemed more suitable for the refractory processing route.

**Going Forward**
Going forward, the Group will continue to develop a high quality non-refractory and refractory resource base for both open pit and underground mining. Specifically in 2019, Group geologists will look to delineate further mineral resources at Albyn and Pioneer sites.

### Ore Reserves (Moz)

| | |
|---|---|
| 2018 | 8.21 |
| 2017 | 8.15 |
| 2016 | 7.95 |

**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 standard mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate that, at the time of reporting, extraction could be reasonably justified. Ore Reserves are sub divided in order of increasing confidence into Proven and Probable categories.

**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 its Ore Reserves depleted from its operations.

**Progress In 2018**
Work completed in 2018 increased total Group reserves by c.7% or c.0.6Moz (before depletion) to 8.21Moz. New open pit Reserves were established at Pioneer, Malomir and Albyn. Following commissioning of the Pokrovskiy POX Hub, refractory reserves increased by 1.21Moz (from 4.10 to 5.31Moz), predominantly via re-classification of transitional reserves which are amenable for either RIP and Flotation/POX and now are deemed more suitable for the refractory processing route. There was a corresponding decrease in the non-refractory ore resources.

**Going Forward**
Going forward, the Group aims to develop the non-refractory and refractory reserve base at and around its operational assets. This is expected to be achieved through continuous exploration, targeting higher grade both open pit and underground reserves.

### Total Attributable Gold Production (koz)

| | |
|---|---|
| 2018 | 422 |
| 2017 | 440 |
| 2016 | 400 |

**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. Gold production data consists of gold recovered during the period and is adjusted for the movement of gold remaining 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 2018**
The Group produced 422.3koz, including 52.1koz of gold contained in high grade refractory concentrate. This result is in line with the Company's guidance for the year of 420 – 450koz. As the Group's flagship mine, Albyn produced 36% of total gold production for the year, while Pioneer contributed 32%. Malomir gold doré production amounted 18% of the total, with an additional 12% in the form of gold in concentrate. Output from Pokrovskiy was largely immaterial (2%) because the asset's mining operations were wound down and the existing processing plant and related infrastructure were converted into the POX Hub during the period.

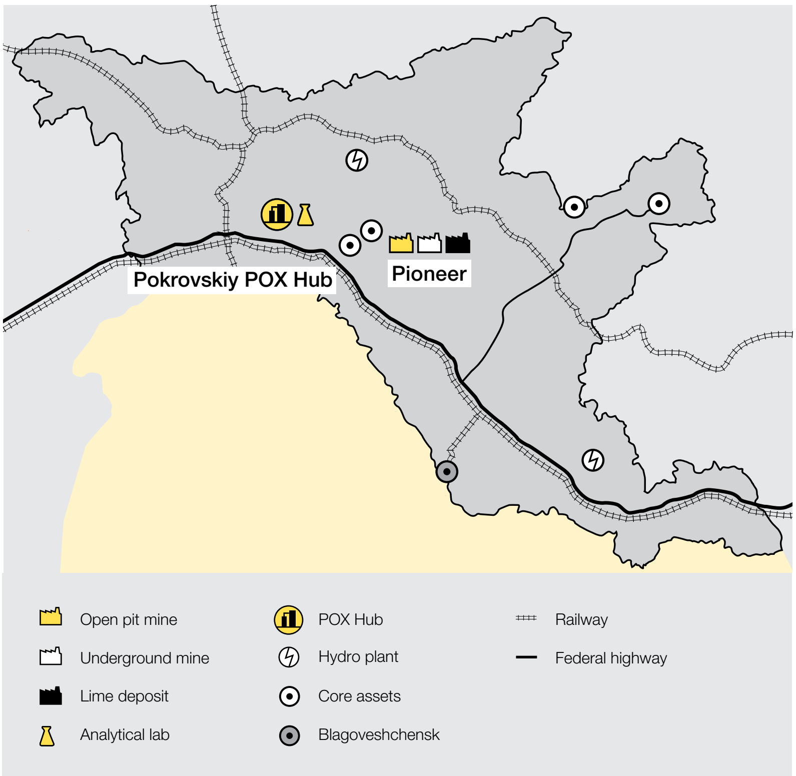
**Going Forward**
Gold production for 2019 is forecast between 450 – 500koz. Enhancing capacity utilisation at the recently commissioned POX Hub facility, by expanding and optimising concentrate throughput from the Company's refractory reserves as well as from third party sourced concentrate, will result in a meaningful contribution to total 2019 production.

# Operational Performance

## Pioneer

Pioneer remains one of Petropavlovsk's flagship assets with significant exploration potential.

**Location**




**Geology**
Gold mineralisation at Pioneer was formed near a contact between a granitoid massif and Jurassic country rocks, as a result of hydrothermal processes during the late Mesozoic Period.

Pioneer contains five licences covering multiple 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 generally 1 to 8 metres in thickness with low-grade halos up to 200m thick with a strike length of up to 2km. Many of the high-grade pay shoots are open at depth, providing potential for further increase in resources.

Exploration potential exists for the discovery of further significant open pit resources particularly south and south west from Pioneer.

**Mining and Processing**
Pioneer is a bulk tonnage mine with multiple open pits and an underground mine. 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.

The new POX Hub has enabled gold production from the refractory ore. The POX Hub is located at Pokrovskiy, c.40km south of Pioneer, and was commissioned at the end of 2018. It will process refractory concentrates initially produced at Malomir and later at Pioneer after a flotation unit is added to the Pioneer processing facility.

**2018 gold production:**

135.1koz – 32% of total Group gold production for the year.

Production as a % of total group

**Key facts:**

2001
Pioneer was acquired as a greenfield licence

2.6Moz
Gold produced to date

6,395kt
Ore processed via RIP in 2018

701kt
Ore processed via HL in 2018

1,337km²
Total gold licence area

5.94Moz
Mineral Resources, including 2.84Moz Ore Reserves

19 years
Mine life

The Group is evaluating the potential to complete the Pioneer flotation plant and enable refractory production as soon as possible, in order to increase production output in the mid-term.

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

Underground development commenced at Pioneer's North East Bakhmut area in Q3 2016 using a reputable Russian mining contractor. Underground production at North East Bakhmut commenced in H1 2017. A second underground mine at Andreevskaya Zone is expected to be built during 2019.

**Operations**
In 2018, Pioneer produced 135.1koz, c.32% of total Group production, and a c.16.5% decrease from 2017 (161.8koz). The decrease reflects an ending to exceptional gold recovered at the resin treatment facility which was constructed in 2017 to recover gold that had built up in the processing circuit.

The main sources of ore at Pioneer were stockpiles accumulated during 2017 and pits of the Alexandra, North-East Bakhmut, Katrin, Yuzhnaya and Promezhutochnaya. RIP processing recoveries were higher than in 2017 due to head grades being higher and the ore processed being less refractory than in the previous year. Heap leach operations operated through the warmer season, producing 5.6koz of gold.

During 2018, a total of 4,397m (57,763m3) of underground development was completed. In total, 115kt of underground ore with an average gold content of 2.82g/t was mined in 2018. More challenging than expected geotechnical and hydrogeological conditions hampered 2018 underground production. As the result, access to the high-grade stopes was not available and majority of ore came from lower grade ore bodies and sublevel development. Problems faced in 2018 have now been resolved and by the end of 2019, when underground mining at Pioneer is ramped up to full capacity, Pioneer is expected to produce ore at an average of 4-5g/t.

**Pioneer open pit and underground mining operations**

| | Units | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Total material moved | m3 '000 | 18,612 | 15,857 |
| Ore mined | t '000 | 3,173 | 8,489 |
| Average grade | g/t | 1.07 | 0.72 |
| Gold content | oz. '000 | 108.9 | 196.4 |

**Processing operations (Resin-in-pulp plant)**

| | Units | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Total milled | t '000 | 6,395 | 6,783 |
| Average grade | g/t | 0.73 | 0.68 |
| Gold content | oz. '000 | 150.0 | 148.9 |
| Recovery | % | 80.4 | 75.3 |
| Gold recovered | oz. '000 | 120.6 | 112.1 |
| Heap leach operations | | | |
| Total stacked | t '000 | 701 | 752 |
| Average grade | g/t | 0.50 | 0.49 |
| Gold content | oz. '000 | 11.3 | 11.7 |
| Recovery | % | 50.1 | 51.8 |
| Gold recovered | oz. '000 | 5.6 | 6.1 |
| Pioneer gold production – Doré | oz. '000 | 135.1 | 161.8 |

*Figures may not add up due to rounding*

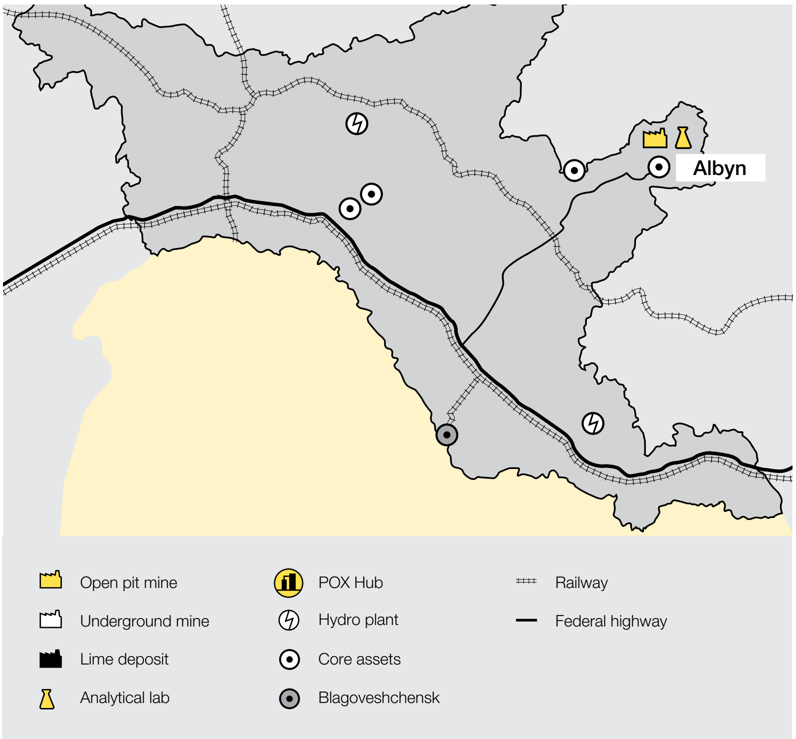
Total Cash Costs◆ were US$799/oz, a 1% increase from 2017 (US$791/oz). All-in Sustaining Costs◆ were US$1,294/oz a 26% increase compared to 2017. Total Cash Costs◆ stayed virtually the same as last year despite a decrease in gold ounces produced, thanks to increase in the head grade and RIP recovery. All-in Sustaining Costs◆ were affected by higher volumes of deferred stripping and increase in both sustaining capital and sustaining exploration expenditures. Sustaining capital expenditures primarily relate to expansion of the RIP tailings dam and development to support the underground mining.

**Outlook**
Production at Pioneer is expected to be marginally lower than 2018 at 129koz down from 135koz. This is due to a scheduled decline in processing grades during the final stage of non-refractory processing. Production is expected to come from Alexandra and Katrin open pits, from operating North-East Bakhmut and proposed Andreevskaya underground mines as well as from existing stockpiles.

## Albyn

The Albyn project consists of three adjoining licences covering multiple orebodies within four key deposits: Albyn, Elginskoye, Unglichikan and Afanasevskoye. All these orebodies are open down-dip. Elginskoye, Unglichikan and Afanasevskoye are also open along the strike.

**Location**




**Geology**
The project 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 down dip. They show variable thickness and grade, extending for c.4.5km in strike length.

The mineralisation at Elginskoye is confined within gently dipping metasomatic zones which dip to the south. Gold mineralisation has been confirmed from drilling and extends over a strike length in excess of 5.7km. It remains open in all directions. Unglichikan comprises a series of sub-parallel, relatively narrow, steeply dipping zones, which are proven over a strike length in excess of 5.2km. It remains open in all directions. There is a relatively narrow, c.1.5km long single zone of gold mineralisation with a steep dip at Afanasevskoye, which is open in down-dip and west strike directions.

There are a number of potential exploration targets in addition to these four known deposits, of which Ulgen, Yasnoye and Leninskoye are the most significant. Most of the licence area remains underexplored and is highly prospective.

All known Mineral Resources and Reserves at Albyn deposit are currently classified as non-refractory. Elginskoye has both non-refractory and refractory Mineral Resource and Ore Reserves. Refractory gold mineralisation is also known to exist at the Unglichikan deposit.

**2018 gold production:**

151koz – 36% of total Group gold production for the year.

Production as a % of total group

**Key facts:**

2005
Albyn was acquired as a greenfield licence

1.1Moz
Gold produced to date

4,602kt
Ore processed via RIP in 2018

1,053km$^2$
Total gold licence area

5.35Moz
Mineral Resources, including 2.32Moz Ore Reserves

18 years
Mine life

## Mining and Processing

Albyn is a large (2.2km long), open pit, bulk tonnage operation. The Group operates its own mining fleet at Albyn, consisting of modern diesel and electrical excavators, dump trucks, drill rigs, bulldozers and other vehicles. Mining productivity and equipment utilisation is optimised by operating two shifts daily 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. The RIP plant comprises of two identical grinding lines, each with a 1.8Mtpa design capacity. Operational optimisations and improvements completed since the Albyn plant was commissioned in 2011 have allowed for a 30% increase over the original design processing capacity.

## Operations

In 2018, Albyn produced 151.0koz, 36% of total Group production and a c.17% decrease on 2017 (181.6koz) largely as a result of continued floodwater issues at the mine. The main sources of ore were the Central zone of the Albyn main pit, with some amount of ore supplied from stockpiles. Throughout the year, the processing plant had consistently high recoveries of over 90%.

Total Cash Costs◆ were US$747/oz, a 38% increase from 2017 (US$541/oz).

All-in Sustaining Costs◆ were US$974/oz, a 36% increase from 2017 (US$718/oz). Total Cash Costs◆ and All-in Sustaining Costs◆ were affected by higher volumes of stripping, suboptimal organisation of mining works in the first half of 2018 and decrease in average grades processed. Rouble depreciation against the US Dollar partially mitigated the negative effect of these factors.

## Albyn mining operations

| | Units | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Total material moved | m3 '000 | 18,155 | 28,557 |
| Ore mined | t '000 | 3,904 | 5,263 |
| Average grade | g/t | 1.1 | 1.16 |
| Gold content | oz. '000 | 137.8 | 196.5 |

## Processing operations (Resin-in-pulp plant)

| | Units | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Total milled | t '000 | 4,602 | 4,618 |
| Average grade | g/t | 1.09 | 1.16 |
| Gold content | oz. '000 | 161.7 | 171.9 |
| Recovery | % | 94.0 | 93.3 |
| Gold recovered | oz. '000 | 152.1 | 160.3 |
| Albyn gold production – Doré | oz. '000 | 151.0 | 181.6 |

*Figures may not add up due to rounding*

## Outlook

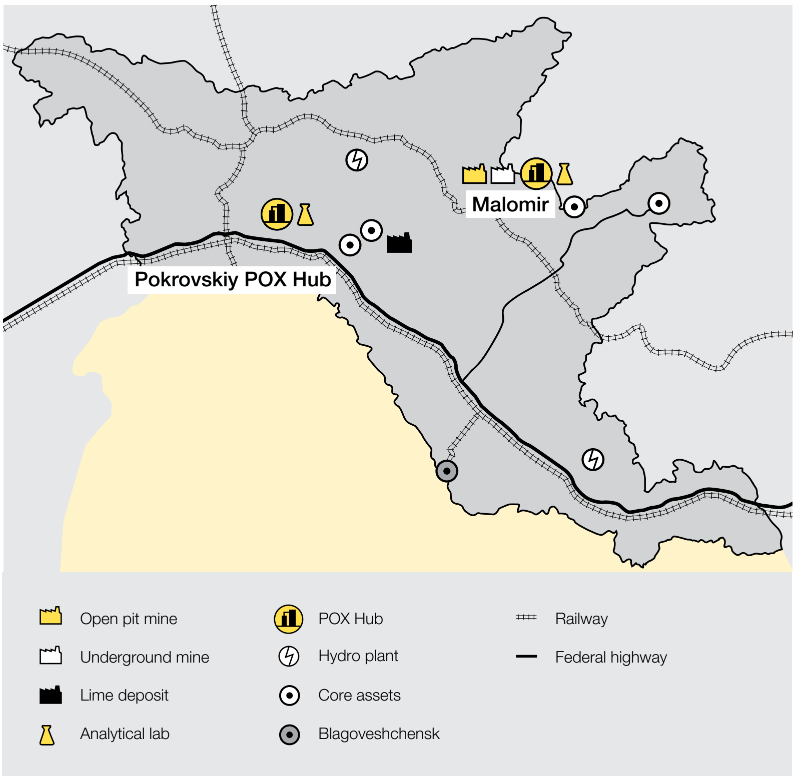
In 2019, Albyn production is expected to be marginally higher than in 2018, due to slight increase in the plant throughput. Production will continue from open pit operations. Albyn's current open pit is now entering its final stages and scheduled to be completed in 2019. Ore will be extracted at Elginskoye from 2020 and at Unglichikan open pit from 2022. As the Albyn orebody remains open at depth well below the open pit, the Group is also exploring the potential for underground mining there.

This may become an additional source of production in the future, should planned exploration confirm sufficient underground Reserves.

# Malomir

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

**Location**




**Geology**
Malomir is situated along and above a major thrust zone within the Mongolo-Okhotskiy mineralised belt. Ore body 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.

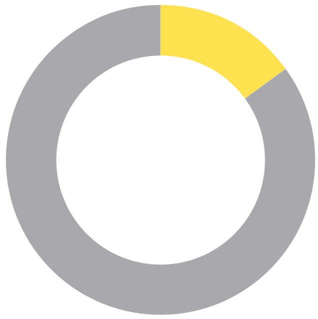
Malomir is the most significant known orebody within the Malomir licence. The principal zone of mineralization is of a tabular morphology with strike length of 4.2km and down dip extension of up to 1.5km. The typical thickness of this zone within pit design is 20 to 30m and up to 100m in some places. It is found above shallow dipping thrust zone dipping in northern direction at 15-20°. In addition to this principal zone, there are a large number of smaller steep dipping zones situated above the main zone. The Malomir orebody is refractory, suitable for the flotation and POX processing route.

Quartzitovoye is the other significant orebody within the project. It comprises of high-grade steep dipping zones 55 and 49 as well as low grade stockwork style mineralisation. The high-grade zones are non-refractory and they remain open in down dip direction, with potential to increase non-refractory resources for potential underground mining.

Ozhidaemoye is an eastern extension of Malomir with a similar tabular morphology and shallow dip towards north. Ozhidaemoye is refractory and expected to provide ore for flotation and POX.

**2018 gold production:**

77.6koz – 18% of total Group gold production for the year.



Production as a % of total group

**Key facts:**

2003
Malomir was acquired as a greenfield licence

0.7Moz
Gold produced to date

2,375kt
Ore processed via RIP in 2018

74.5km$^2$
Total gold licence area

6.92Moz
Mineral Resources, including 2.86Moz Ore Reserves

18 years
Mine life

Magnetitovoye is a small narrow steep dipping non -refractory satellite orebody situated c.4.5km east from Malomir open pit.

**Mining and Processing**
Mining operations at Malomir are carried out both in open pit and underground. The Group operates its own mining fleet at Malomir for exploiting the open pit and is assisted by a local contractor. Underground mining is performed by a reputable Russian underground mining contractor. Mining productivity and equipment utilisation is optimised by operating two shifts daily throughout the year.

The higher-grade non- refractory ore at Quartzitovoye and Magnetitovoye is processed at the 3.0Mtpa RIP plant, which is operational throughout the year. The refractory ore from Malomir and Ozhidaemoye does not respond to standard RIP processing methods but can now be processed in the Group's recently commissioned POX plant at Pokrovskiy c.670km (by motor road) from Malomir.

The first stage construction of the Malomir flotation plant is now complete. The initial flotation line at Malomir was successfully commissioned in July 2018. The second was commissioned at the beginning of October and is now fully operational. A total of 46kt of concentrate containing c.52.1koz of gold has been produced by year end.

The second stage of construction designed to increase the capacity of the Malomir flotation unit to 5.4Mtpa, is currently scheduled to begin construction in 2020. Management is considering to fast-track its development to maximize utilisation of capacity at the POX Hub. The flotation plant is converting the refractory reserves into higher- grade flotation concentrate, which is now being sent to the POX Hub for processing.

Underground development commenced at Malomir's Quartzitovoye zone in January 2017. Despite initial delays due to slow contractor mobilisation, Quartzitovoye underground production started in June 2017 and ramped up to an annualised 250ktpa of ore by the end of 2017. Quartzitovoye maintained and exceeded this level of ore production through 2018. A total of 291kt of ore at an average grade 4.52g/t containing 42.3koz of gold was produced from Malomir underground operations.

**Operations**
In 2018, Malomir produced 77.6koz, 18% of total Group production and an 18% increase from 2017 (65.6koz) including gold in concentrate. The increase is mostly attributable to the processing of refractory reserves and high-grade underground ore.

The refractory ore was sourced from the Malomir Centralniy pit; Quartzitovoye and Magnetitovoye zones together with underground mine and low-grade stockpiles provided non-refractory for the RIP plant. The volumes of ore treated through the plant increased by 7% compared to 2017, which was in line with the mining plan.

The construction of an underground mine at Quartzitovoye 1 began in January 2017, and 3,084m (47,157m$^3$) of underground development was completed during 2017.

During 2018, a total of 291.0kt of ore was mined from underground, with an average gold content of 4.52g/t.

Total Cash Costs◆ were US$791oz, a 15% decrease compared to 2017 (US$929/oz). All-in Sustaining Costs◆ were US$1,058/oz, a 17% improvement from 2017 (US$1,278/oz). Decrease in the Total Cash Costs◆ per ounce is associated with improvement in the RIP head grades and recovery, physical volumes of the both total rock moved and ore processed through RIP plant decreased helping to save on operating cost. All-in Sustaining Costs◆ decrease is primarily related to the decrease in the underlying Total Cash Costs◆.

**Outlook**
Production from Malomir is expected to increase to 190koz in 2019. Of this amount, c.36koz represents gold to be extracted from refractory gold concentrate stockpiles which were mined and processed in the Malomir flotation plant in 2018. Production will increase as the contribution from refractory processing has its full effect. Non-refractory production is expected to decrease to 0.4Mtpa when the grinding capacity is dedicated to the flotation circuit. Non-refractory production will be supported by the ore mined from Quartzitovoye underground and open pit mines.

**Malomir mining operations**

| | Units | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Total material moved | m3 '000 | 7,464 | 9,380 |
| Non-refractory Ore | t '000 | 2,264 | 2,770 |
| Average grade | g/t | 1.39 | 0.97 |
| Gold Content | oz. '000 | 101.3 | 86.1 |
| Refractory Ore | t '000 | 837 | – |
| Average grade | g/t | 1.55 | |
| Gold content | oz. '000 | 41.8 | |

**Processing operations (Resin-in-pulp plant)**

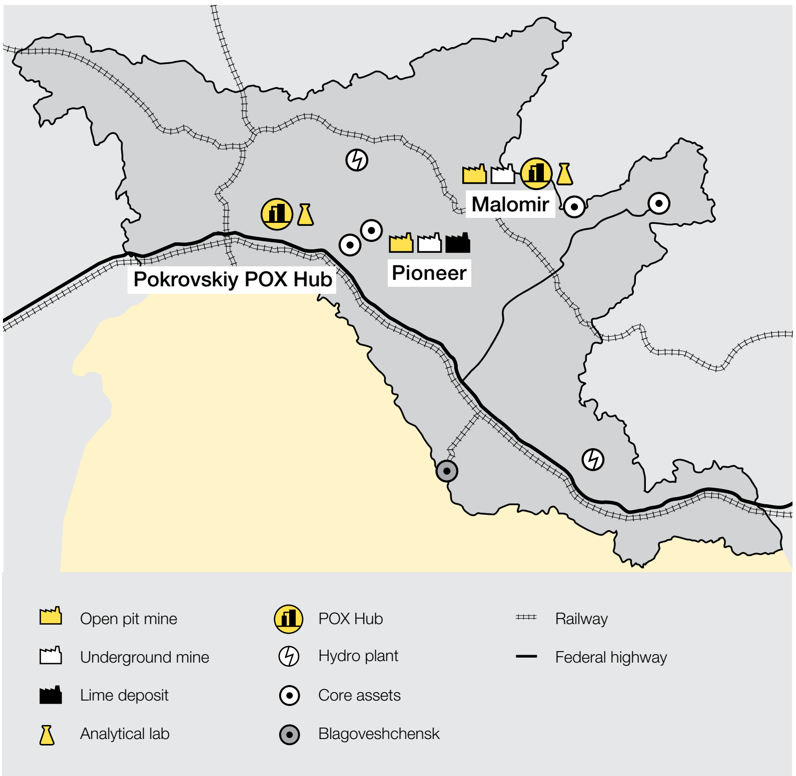
| | Units | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Total milled | t '000 | 2,375 | 3,404 |
| Average grade | g/t | 1.33 | 0.91 |
| Gold content | oz. '000 | 101.7 | 99.5 |
| Recovery | % | 73.6 | 64.9 |
| Gold recovered | oz. '000 | 74.8 | 64.6 |
| Flotation Plant | | | |
| Ore | t '000 | 1,266 | – |
| Average grade | g/t | 1.48 | – |
| Gold content | oz. '000 | 60.2 | – |
| Recovery | % | 86.6 | – |
| Yield | oz. '000 | 3.6 | – |
| Concentrate produced | t'000 | 46 | – |
| Grade | g/t | 35.2 | – |
| Gold content | oz. '000 | 52.1 | – |
| Malomir gold production – Doré | oz. '000 | 77.6 | 65.6 |

*Figures may not add up due to rounding*

## Pokrovskiy

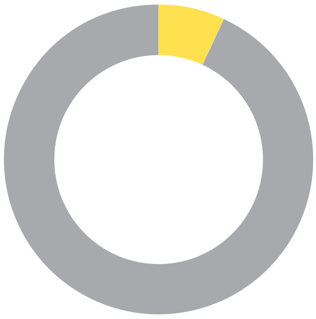
The Group's oldest mining asset, Pokrovskiy has ended its operational life and now has been converted into a key POX Hub site.

**Location**




**2018 gold production:**

6.5koz – 2% of total Group gold production for the year.




**Key facts:**

1994

Acquired in early stages of exploration by Pavel Maslovskiy, co-founder and CEO, before the Group was created in 1994 to finance its development.

2.0Moz

Gold produced to date

223kt

Ore processed via RIP in 2018

95km$^2$

Total gold licence area

0.88Moz

Mineral Resources

Pokrovskiy ceased mining and ore processing operations in Q1 2018, after nineteen years of successful operations. Economic and technical studies identified the site as the optimal strategic location for the planned POX Hub. Its extensive onsite facilities and well-developed infrastructure have been adopted and integrated into the project, which includes a RIP plant, accommodation, roads, power lines, offices and laboratories.

Buildings and equipment with a gross book value of approximately US$90 million have been directly incorporated into the project, which has had a beneficial impact on capital costs. The Pokrovskiy site is 670km from Malomir and 40km from Pioneer via all-weather federal roads.

The Pokrovskiy site is located within close proximity to limestone deposits, which provide an essential reagent used in POX processing. The site benefits from access to low cost and sustainable hydropower from four regional hydroelectric stations, which have a combined capacity of approximately 5GW. The Trans-Siberian Railway - one of the main regional railroads, is 10km from the Pokrovskiy site, and the regional capital Blagoveshchensk – an important Russia-China trading hub, is 450km away via federal motorway. The region also benefits from the availability of highly skilled labour.

**Final Processing**

Mining at Zeyskoye and Vodorazdelnoye ore bodies accessed in 2017 stopped in Q1 2018. All ore extracted was processed at the RIP plant in Q1 2018, together with ore from stockpiles. Pokrovskiy RIP plant was stopped in Q1 2018 for refurbishment and integration into POX Hub. A further small amount of gold was recovered from plant circuit in the remaining months during plant reconstruction. Heap leach was on conservation and did not operate during 2018.

The project is closed and transformed into the key component of the POX Hub. The physical volumes in 2018 were insignificant (6koz of gold sold).

**Pokrovskiy mining operations**

| | Units | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Total material moved | m3 '000 | 152 | 3,745 |
| Ore mined | t '000 | 116 | 1,468 |
| Average grade | g/t | 0.59 | 0.51 |
| Gold content | oz. '000 | 2.2 | 24.1 |

**Processing operations (Resin-in-pulp plant)**

| | Units | Year ended 31 December 2018 | Year ended 31 December 2017 |
|---|---|---|---|
| Total milled | t '000 | 223 | 1,815 |
| Average grade | g/t | 0.55 | 0.47 |
| Gold content | oz. '000 | 4.0 | 27.4 |
| Recovery | % | 94.2 | 82.9 |
| Gold recovered | oz. '000 | 3.7 | 22.7 |
| Heap leach operations | | | |
| Total stacked | t '000 | – | 498 |
| Average grade | g/t | – | 0.39 |
| Gold content | oz. '000 | – | 6.3 |
| Recovery | % | – | 45.4 |
| Gold recovered | oz. '000 | – | 2.9 |
| Pokrovskiy gold production – Doré | oz. '000 | 6.5 | 30.6 |

*Figures may not add up due to rounding*

## 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 assay 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 2018. Tokur has been fully impaired (in 2015) and the Group intends to review its development plans in the medium term.

# The POX Hub

The Pressure Oxidation facility ('POX Hub') is a cornerstone of Petropavlovsk's strategy and the principal driver of future value for the Company. The POX Hub will be used to process the Company's 12.33Moz of refractory gold resources and 5.31Moz of refractory gold reserves which are found in easily accessible deposits with low strip rates. These deposits are highly prospective for further exploration and discovery.

Having worked on this project for almost a decade, the POX team successfully commissioned the facility in December 2018, within the revised timeframe. Design capacity was achieved and Autoclave 1 commenced processing the refractory ore concentrate from Malomir in the first week of December. Gold recovery of c.93-94% was achieved in line with expectations for the double refractory ore.

Following the successful commissioning of Autoclave 1, Autoclave 2 was commissioned on 27th of December 2018. It has also reached design capacity ahead of schedule.

| | |
|---|---|
| **Capacity** | up to 500ktpa<br>Depending on properties of the concentrate |
| **No. of Autoclaves** | 4 |
| **Refractory Reserves** | 5.31Moz |
| **Refractory Resources** | 12.33Moz |
| **Concentrate yield** (Malomir concentrate) | 2.8-4.2% |
| **Concentrate grade** | 20-40 g/t Au |
| **Sulphur content** (Malomir concentrate) | 20-40% |
| **Total avg gold recovery** (Malomir concentrate) | 80% |
| **Concentrate yield** (Pioneer concentrate) | 2.9% |
| **Concentrate grade** (Pioneer concentrate) | 20-30 g/t Au |
| **Sulphur content** (Pioneer concentrate) | 21.0% |
| **Total avg gold recovery (ore to doré)** (Pioneer concentrate) | 80% |

## About Refractory Ore

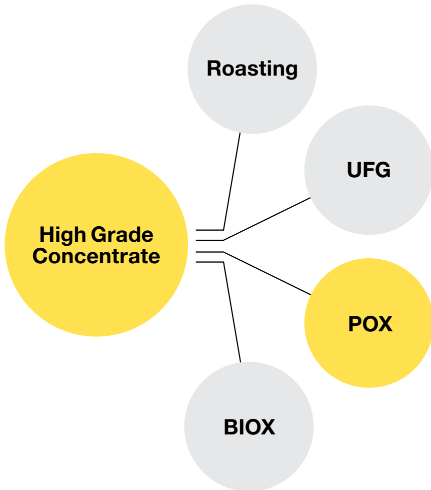
Refractory ore is rock mineralised with gold that is resistant to recovery via standard cyanidation and carbon/resin absorption methods. The gold in refractory ore is associated with sulphide minerals, which encapsulate the gold particles, making it difficult for the leach solution to reach and dissolve the gold. Some refractory ores also contain organic carbon which absorbs gold from the solution before it can be recovered, causing high metallurgical losses. In addition to this, refractory ores often contain arsenic, which needs to be handled in a safe and environmentally responsible way.

For effective gold recovery, sulphides in the refractory ore need to be broken either chemically (usually by oxidation) or mechanically (by very fine grinding). If carbon is present, special measures are required to neutralise its effect and minimise gold losses. As with non-refractory 'free milling' ore, refractory processing starts with crushing and grinding and ends with cyanide leaching and gold recovery from the solution. Finally, the gold is smelted into doré bars.

However, there are additional processing stages required prior to cyanide leaching, which break down the sulphides and release the gold encapsulated within them. In order to maximize the efficiency of the leaching process and to reduce costs, many refractory gold producers use flotation, which produces high grade concentrate. This concentrate can then be sent for oxidation or ultra-fine grinding. Flotation typically means an 85-97% reduction in mass.

There are four practical methods for breaking up refractory ore sulphides:

- Pressure oxidation (POX): Sulphides are oxidised in an autoclave under high pressure and temperature using pure oxygen.
- Roasting: Oxidation by high temperature roasting.
- Bio oxidation (BIOx): Sulphides are oxidised using bacteria that 'eat' sulphides.
- Ultra-Fine Grinding (UFG): Refractory ore or concentrate is ground to a very (ultra) fine state in attempt to release gold encapsulated in the sulphides or other minerals.




### Group Refractory Processing Flowsheet

**Flotation Plant Malomir** (operational from July 2018)

**Flotation Plant Pioneer** (expecting to become operational from 2023)

**Malomir concentrate**
86% recovery
2.8%-4.2% yield concentrate grade of 20-40g/t Au
sulphur content 20-40%

**Pioneer concentrate**
82% recovery
2.9% yield concentrate grade of 20-30g/t Au
sulphur content of 21%

**Concentrate Re-grinding**
90% -0.044mm

1

**Autoclave Oxidation 4x 15mx4m autoclave**
225°C @ 35 bar
20-30 minutes

2

**RIP Circuit**
Purogold

3

**Doré to Refinery**
Recoveries
Malomir = 93%
Pioneer = 98%

4

**Total recovery (ore to doré) = c.80%**

# The POX Hub continued

Roasting generates toxic fumes, especially if arsenic is present in the feed, and it is considered to generate high environmental risk.

The BIOx method can be an efficient processing option, but it relies on organisms that only live in certain conditions. Consequently, BIOx is very sensitive to the composition of the feed. In addition, the BIOx waste discharge contains arsenic in a soluble form, which creates both safety and environmental risks.

UFG can only be used if the gold is encapsulated as fine inclusions in sulphides and other minerals, and can be liberated by a process of mechanical grinding. Most refractory deposits are not amenable to UFG.

In contrast to these other refractory processing options, POX can be applied efficiently to a wide range of refractory feeds. If arsenic is present it is discharged in the form of scorodite, which can be safely stored in a tailings pond.

Many gold producers have adopted the technology successfully, after it was developed in the 1950s and first implemented for gold ores in 1985 by Homestake Mining Company at its McLaughlin project, USA.

In 2017, nine gold POX processing plants were operational worldwide. Three were either in advanced construction or development stages and were expected to be commissioned between 2018 and 2023; a further two were in early development stages.

**The POX Process**
The POX method begins with the same processes as a traditional RIP method where firstly, ore is mined, crushed, and ground. It then passes through a flotation circuit. The Group expects to produce high-grade concentrate equating to between 2.8% and 4.2% mass of the original ore ('concentrate yield'). This concentrate will be transported to the POX Hub for further processing and gold recovery.

The POX Hub at Pokrovskiy is designed to operate at pressure of 3,500kPa and at a temperature of 225°C. This is higher than most other operating POX plants, and enables refractory feed with varying metallurgical properties to be processed efficiently.

Having four separate autoclave vessels gives our refractory processing operations a significant degree of flexibility because flotation concentrates from Malomir and Pioneer (and potentially other sources) can be processed optimally at the same time, without compromising productivity or gold recovery.

**POX at Petropavlovsk**
In 2010, following the confirmation of substantial refractory resources at the Pioneer and Malomir projects, an extensive feasibility study into refractory ore processing solutions was carried out by PHM Engineering, a Petropavlovsk subsidiary. This incorporated a base engineering study prepared by Outotec, a Finnish engineering firm, in cooperation with the RDC Hydrometallurgy methodological scientific centre, another Petropavlovsk subsidiary.

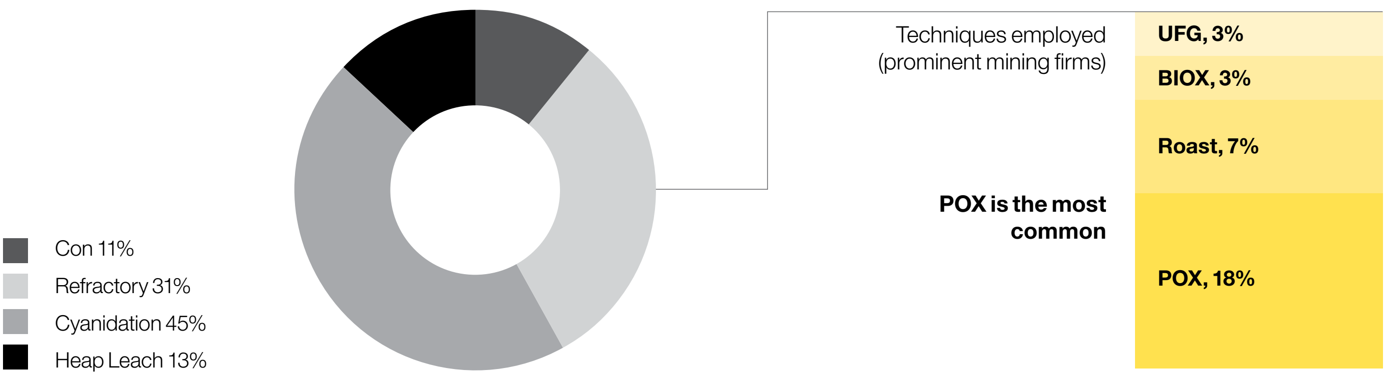
The results demonstrated that POX was the most attractive processing solution in both technical and economic terms, in addition to being the safest and most environmentally friendly method.

In 2011, the Company sanctioned the development of the POX project. The final design required the construction of flotation plants at Malomir (5.4Mtpa) and Pioneer (6.0Mtpa), and a 500ktpa pressure oxidation facility (POX Hub) at Pokrovskiy, utilising four separate autoclave vessels (15m x 4m, each with a volume of 66m$^3$) with potential to expand by adding 2 additional vessels.

Following the reduction in the price of gold in 2013, the Company moved the POX Hub development to care and maintenance while exploring potential external funding solutions with the Company's lenders, and other Joint Venture partners. Prior to this, significant design work, earth works, civil works and construction had been completed.

Starting in 2017, full scale development works were resumed which led to the successful commissioning of the hub in Q4 2018 on time and on-budget.

**Refractory Processing Options**




*Source – GMR, Company Reports*

# POX Rational

**The Pros and Cons of Pressure Oxidation**
Pressure oxidation was originally developed for processing base metal concentrate but over the last twenty years it has been used to liberate gold trapped in sulphide molecules. Today POX is responsible for more than 10% of gold production, about 4Mozpa

The key advantages of POX include:

- High gold recoveries (10% higher than roasting) due to the complete breakdown of sulphide minerals allowing the gold to be fully liberated;
- Arsenic is stabilised as scorodite rather than reporting to the gas phase like it does in roasting; and
- Sulphuric acid is produced in solution.

Gold, sulphur and carbonate levels in refractory deposits show a wide variation. A higher gold to sulphur ratio in the ore generates more downstream processing options. POX is flexible to a degree but a consistent feed, in terms of sulphur content and its ratio to carbonates, is required for the plant to function correctly. This necessitates a sophisticated stockpiling and blending strategy across a number of grades of material with variable sulphur content.

POX is a successful technology that generates access to large scale, long life projects with reasonable cost profiles. Despite this global uptake of this ground-breaking technology has been slow. The high capital costs and complex technology are major barriers to the construction of POX facilities. Many companies with refractory ore have opted to sell concentrate or pay for tolling with the ensuing reduction in income compensated for by the reduction in capital costs up front.

**Refractory Gold Deposits**
As with most commodities, the more accessible and easily processed gold deposits are now mostly worked out. Added to this, the political risks which are part and parcel of the jurisdictions where these deposits are situated make exploitation almost impossible. However, refractory gold deposits are still relatively common and available for licensing in lower risk jurisdictions.

**Processing Options**
Each deposit is different and all processing options have their own idiosyncrasies. In the past, roasting has been the most commonly employed method of processing refractory ore, but POX is now the default choice for new refractory projects and now accounts for ~18% of gold production as opposed to ~7% for roasting.

**POX Projects**
There are 11 POX operations for gold extraction currently running with Lihir operating the largest POX plant.

| Operation | Start | POX Feed | Flowsheet | Capacity 000 tpd | Autoclaves | Grade g/t |
|---|---|---|---|---|---|---|
| Pueblo Viejo | 2012 | Whole Ore | POX, CIL | 24.0 | 4 | 2.8 |
| Goldstrike | 1990 | Whole Ore | POX, TCM-RIL | 16.0 | 6 | 3.9 |
| Lihir | 1997 | Whole Ore & Con | Float, POX, CIL | 25.0 | 4 | 2.3 |
| Twin Creeks | 1997 | Whole Ore & Con | POX, CIL | 10.4 | 2 | 1.8 |
| Kittila | 2008 | Concentrate | Float, POX, CIL | 0.87 | 1 | 4.7 |
| Amursk | 2012 | Concentrate | Float, POX, CIL | 0.616 | 1 | 5.2 |
| Porgera | 1990 | Concentrate | Float, POX, CIL | 16.4 | 4 | 4.8 |
| Macraes | 1999 | Concentrate | Float, POX, CIL | 0.650 | 1 | 1.1 |
| Córrego do Sítio | 2011 | Concentrate | Float, POX, CIL | 0.240 | 1 | 4.1 |
| Pokrovskiy | 2018 | Concentrate | Float, POX, RIP | 1.370 | 4 | 1.0 |
| Çöpler | 2018 | Whole Ore | POX, CIL | 6.0 | 2 | 2.8 |

2018 was a successful year for the implementation of POX technology with two new projects, Pokrovskiy and Çöpler becoming operational. The Pokrovskiy POX was commissioned in November 2018 and two of four autoclaves have reached their designed capacity and gold recovery. Two other autoclaves will be commissioned once sufficient supplies of 3rd party concentrates have been secured. Çöpler sulphide POX plant was also commissioned in Q4 2018.

# Unlocking POX potential

### Project team

**Aleksey Afanasiev**
**Head of the POX Hub**

- Professional with over 10 years of experience in the field.
- 9 years with the Company including 4.5 years as the Head of Albyn.

**Viktor Fedorov**
**Head of Research and Development**

- 17 years of project management in ferrous and non-ferrous sectors.
- Strong track record of managing and delivering logistically and technologically challenging and complex development projects.

**Professor Yakov Schneerson**
**Director of Gidrometallurgiya R&D Centre**

- Authoritative expert in autoclave technology.
- Over 50 years of experience.
- Extensive experience working on POX projects including Nadezhdinskiy (Norilsk Nickel).
- Credited with 65 inventions.

### Exploration upside

The Group's JORC-defined refractory reserves of 5.31Moz are located within the Malomir, Pioneer and Albyn projects, with licence areas of 74.5, 1,337 and 1,053km$^2$ respectively. All three projects sit along or above the Mongolo-Okhotskiy mineralised belt, which hosts a number of large deposits, including Sukhoi Log and Teseevskoe to the west of the Amur region. Malomir area remains largely underexplored but is highly prospective for the discovery of additional resources, offering further refractory resource upside.

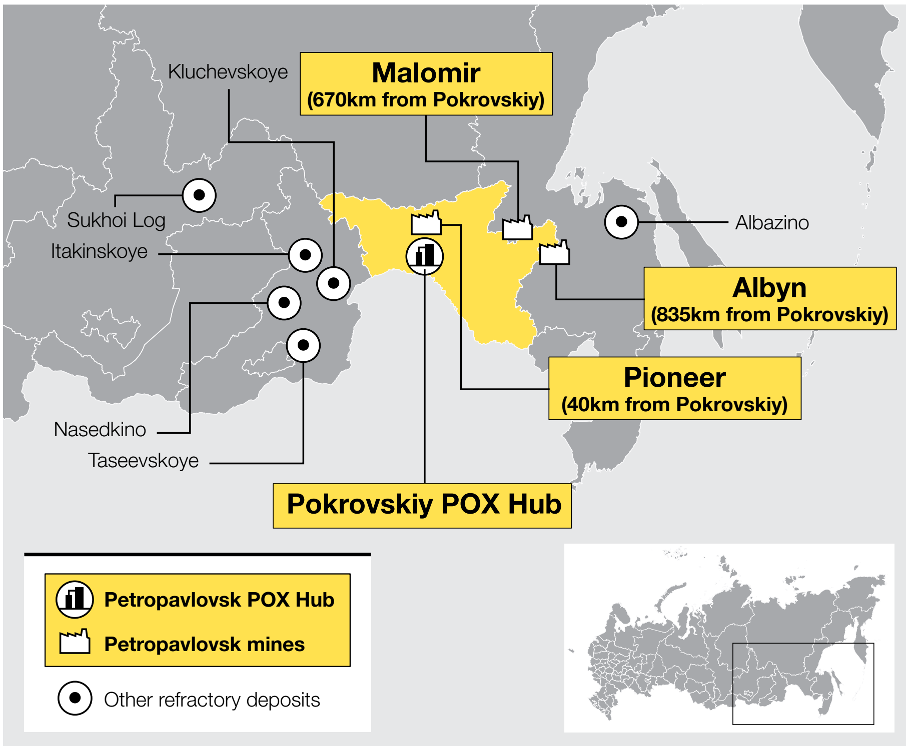
Further refractory resource potential exists at Pioneer in addition to its significant non-refractory reserves, particularly along the contact between granitoid and Jurassic host rocks, south and south west of the Pioneer RIP plant. 76% of Pioneer's JORC Ore Reserves are refractory.

The Group continues to explore the potential for further mine life extension and production expansion. Exploration work has identified several prospective satellite refractory targets at Malomir and Pioneer for further work, including Ozhidaemoye. There is also known refractory as well as non-refractory exploration potential within the Albyn licence holding.

### Regional licence acquisition

The absence of viable processing options, due to the high barriers to entry, has meant that prospecting and exploration of refractory gold deposits has been neglected despite the existence of highly promising projects available for licensing from the Russian Government. These deposits are also available for low cost acquisition from other gold explorers.

### Location and infrastructure



## Expansion

The Pokrovskiy POX Hub is the second of its kind in Russia. When it is complete, it will have up to nominal capacity of c.500ktpa of concentrate. It is also the most technologically advanced due to the unusually high temperatures and pressures being employed. Space has been reserved for two further autoclave vessels in addition to the current total of four. This would create a total capacity of up to 650ktpa.

## Ability to process third party ore

Given the scale of the POX Hub and the large amount of undeveloped refractory gold mineralisation in the Russian Far East, the POX Hub provides opportunities for the future growth of the Group beyond its own existing resources and potential resources by processing third party ore or concentrate for a fee or under a tolling arrangement.

## Further optimisation

Research completed by RDC Hydrometallurgy indicates that there is potential to increase recovery from Malomir concentrate from 93% (as currently expected) to a maximum of 97%, by employing concentrate thermal pre-treatment ahead of POX. This is yet to be incorporated in the POX design and yet to be reflected in the Group's production and financial projections. There is also the opportunity to further optimise production within the Group's own assets and increase the grades of treated concentrate, or do so in cooperation with third parties using their high-grade ores or concentrates.

## POX research and development expertise

The Group also operates a unique POX pilot plant that replicates an industrial POX processing plant at a small scale. This facility was instrumental in defining optimal processing parameters and regimes, developing the final processing design, and derisking the Pokrovskiy POX development. The pilot plant was also used to test the suitability of vital parts of the high-pressure equipment, such as valves and pipes, in order to select the most suitable products.

It is expected that the pilot plant will continue to be used for the purpose of testing samples to ensure processing parameters and regimes are adjusted in a timely manner, depending on the future feed. The plant also carries out work for third parties.

RDC Hydrometallurgy also provides metallurgical tests and consultancy services to third parties. Its clients include Outotec, Polyus Gold, Kazzink, Kazakhmys, Norilsk Nikel and other CIS mining companies. In total, the team has published 32 articles in both Russian and international journals, and patented 6 of its research findings.

**Dr Sergey Ryakhovskiy**
**Group Head of Metallurgy**

- Professional with 30+ years of experience.
- Extensive experience in gold and uranium hydrometallurgy in particular with RIP process.
- Has been leading designs and oversaw the commissioning of all Group processing facilities.

**Evgeniy Kudrin**
**Technical Director of POX Hub**

- Over 20 years of experience working in refractory ore processing.
- Formerly Deputy Director for Production and Operations at Nadezhdinskiy POX Plant (Norilsk Nickel).

**Teemu Karjalainen**
**Outotec Project Manager**

- 20 years' experience in international sales and projects.
- 10 years in Outotec's Project Management in the field of Hydrometallurgy and Minerals Processing.
- Involved in Petropavlovsk's POX Hub project since 2011.

#### Construction of Malomir Flotation Plant

The Malomir flotation plant is a staged build with the following two stages:

**Stage 1** capacity is 3.6Mtpa across two parallel 1.8Mtpa lines. Construction of Stage 1 is complete. The first flotation line at Malomir was commissioned in July 2018. The second flotation line at Malomir was commissioned in October of 2018. By the year end both lines reached their full capacity and produced concentrate with an average grade of c.35g/t. This is a significant improvement on its original c.24g/t design assumption and leads to a c.40% decrease in concentrate bulk that needs to be transported and treated through the autoclaves. In its medium-term production projection, the Group adopted a conservative approach budgeting an average grade of concentrate 25g/t. This therefore represents a significant upside in terms of the economics of the Malomir project and its profitability.

**Stage 2** will expand the flotation plant to 5.4Mtpa by adding a third 1.8Mtpa line. Stage 2 expansion is currently scheduled to begin construction in 2020, although Management is considering to fast-track its development to maximise utilisation of capacity at the POX Hub.

During Stage 1, the spare crushing and grinding capacity will be fully utilised for non-refractory feeds from open pit and underground into the RIP plant. The completion of Stage 2 will leave approximately 0.6Mtpa of milling capacity to process the remaining non-refractory underground and open pit reserves.

#### Pioneer Flotation Plant

The Pioneer flotation plant, comprising of two 1.8Mtpa lines, is scheduled to start production in 2023. The Group Board of Directors is currently discussing possibilities to start construction by the end of 2019 to allow concentrate production from the end of 2020. Current strategy postulates a third similar line at some point in future. This third line will bring Pioneer flotation plant capacity to 5.4Mtpa.

#### Key Construction Milestones

Completed as of the end of 2018,

| | |
|---|---|
| Malomir flotation plant commissioned and start production | July 2018 |
| Pokrovskiy RIP refurbishment and integration into the POX Hub | October 2018 |
| POX Hub dry commissioning | October 2018 |
| Malomir flotation plant expanded | October 2018 |
| POX Hot Commissioning: Autoclave No 1 | November 2018 |
| POX Hot Commissioning: Autoclave No 2 | December 2018 |
| First refractory gold poured | December 2018 |
| Autoclaves No 1 and 2 reached design capacity and recovery | December 2018 |

#### Anticipated Milestones for 2019:

| | |
|---|---|
| Steady POX processing state at 11t/hour per autoclave and steady gold production | Completed in January 2019 ahead of plan |
| POX tailings facility | Completed in February 2019 |
| Commissioning of autoclaves No 3 and 4 | Once sufficient supplies of 3rd party concentrate can be secured |

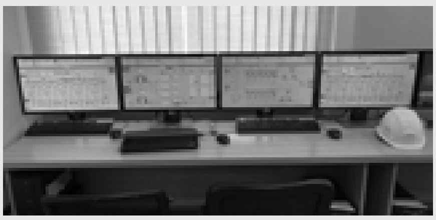
#### Case Study

**POX Hub Training**

In October 2018, wet commissioning works began at the POX Hub. The POX Hub was designed by Outotec, in a unique collaboration with PHM Engineering, the Group's in-house design institute.

The Group completed a comprehensive training programme in 2018 to prepare our personnel to operate the unique and innovative POX facility. In early 2018 RDC Hydrometallurgy (St. Petersburg) was commissioned to develop an advanced engineering course 'Autoclave Oxidative Leaching of Gold-bearing Sulphide Flotation Concentrates' for our engineering and technical personnel. The only pilot autoclave installation in Russia that Group founded in 2011 has been used to train POX operational personnel. This simulator of the operator's workplace allowed trainees to learn how to monitor and control all POX parameters and operate full scale POX safely and efficiently.

For six months, the engineers and technicians from Pokrovskiy, studied the theoretical section of the course at the training centre of Pokrovskiy Mining College. They then practiced on the simulator to be fully prepared for the real-life commissioning. Following completion of the theoretical course, the participants were trained to deal with the commissioning and real live operation of the full-scale POX plant using the pilot autoclave with its POX control simulator.



# Underground

In 2018, the Group continued the development of its underground mines at the Pioneer and Malomir sites.

At Pioneer, underground mining continued at North East Bakhmut zone (North East Bakhmut). Two further underground mines are planned at Andreevskaya and Nikolaevskaya. Andreevskaya mine should produce its first ore by the end of 2019 and commence full scale production in 2020. Construction of the Nikolaevskaya mine is currently envisaged after 2030, once the open pit mining there is completed.

At Malomir, the Group operates an underground mine at Quartzitovoye .

Both of the Group's operating mines are trackless; developed and mined by reputable mining contractors. Ore is mined using sublevel open stoping with unconsolidated waste back fill, or without backfill where ground conditions permit.

**Pioneer**
The Group's North-East Bakhmut underground mine exploits the high-grade pay shoots remaining below the completed open pit. Pay shoots No2 and No3 are sufficiently explored to support JORC Mineral Resource and Ore Reserve estimates. These two are included in the current mine plan. They both strike towards the north east dipping between 55 and 70 degrees towards the north west. Pay shoot No 3 is 165m in strike length. The explored vertical extent of the orebody remaining below the open pit is 280m. The Pay shoot is up to 15m wide. It narrows with depth but appears to be open down dip.

The North East Bakhmut No 2 pay shoot is located c.550m southwest from No 3. It has a similar strike extension and thickness up to 25m and is also open down dip. There are further three pay shoots known at North East Bakhmut whose underground reserves are yet to be established: Nos 1, 4 and 5. Pay shoots Nos 1, 2 and 3 are non-refractory and can be processed through the existing RIP plant; Nos 4 and 5 are refractory and require flotation and POX.

As at 31 December 2018 Pioneer had 590koz of JORC Resources including 340koz of Proven and Probable Ore Reserves for underground mining.

Production at North East Bakhmut started in 2017 at a lower grade but easily accessible "bridge zone" between North East Bakhmut pay shoot No 2 and No 3. During 2018 at North East Bakhmut, the access decline advanced from level +40 to – 50m allowing the first stopes to be mined from the high grade 1-7 orebody at North East Bakhmut 3. Work in 2018 was concentrated on the development of the main haulage decline and sublevels. The majority of 2018 production came from development ore.

Mining and mine development work at North East Bakhmut was hampered by challenging hydrogeological and geotechnical conditions. The main access and haulage decline hit exceptionally poor ground in Q1 2018; the position of the decline had to be changed away from the problematic area as the result and mine re-designed causing an initial delay.

In October 2018, mining in the first stopes of the main high-grade orebody at -5m level caused higher than expected water inflow into the +55 m sublevel and all work in the North East Bakhmut 3 area had to be stopped until the inflow was under control. While the mining team dealt with water at North East Bakhmut, efforts were re-orientated on developing access and ventilation declines on North East Bakhmut No 2 pay shoot. Ore mining at North East Bakhmut only resumed in January 2019.

A total of 4,397m of underground development was completed during 2018. A total of 115kt of ore grading 2.82g/t was mined from North East Bakhmut underground workings including 76kt@ 1.95 g/t of development ore and 39kt@ 4.55g/t of stope ore.

Production in 2019 is expected to come from North East Bakhmut No3 and No 2. Pay shoot No 3 expected to produce 130kt of ore grading 6.7g/t whilst North East Bakhmut No2 is expected to contribute 13kt of development ore with an average grade of c.6g/t.

In addition, mine development is scheduled to start at Andreevskaya Zone on its eastern pay shoot. In 2019 Andreevskaya underground mine is expected to produce c20kt of ore with an average grade of 14.4g/t.

**Malomir**
Quartzitovoye underground mine at Malomir continued to exploit the high-grade ore body No55 and its smaller satellites. Ore body No55 has a strike length of 300m and an explored vertical extend of 215m (the remaining part below open pit). It has a north-south strike direction and sub-vertical dip. The ore body is open down dip.

As at 31 December 2018 Quartzitovoye had 170koz of JORC Resources including 102koz of Proven and Probable Ore Reserves for underground mining.

Mining at Quartzitovoye started in 2017 and production was fully ramped up to 250ktpa of ore by the end of 2017. In 2018 production came from ore body No55 and a smaller ore body No49. In H1 2018, ore stoping took place at the central section of ore body No55 at sublevels 360-390m and at sublevel 245m in the south section. Later work moved to sublevel 285 in the northern section. As of year-end, central and northern sections were mined out above 285m. Ore body No49 was exploited between sublevels 330-350m.

The access and haulage decline advanced from 285m to 240m elevation providing a solid foundation for 2019 production. In 2018, a total of 6,910m of underground development was completed; 291kt of ore with an average grade 4.52g/t was mined. This included 165kt of development ore at an average grade 3.4g/t and 126kt of stoping ore grading 5.97g/t.

In 2019 development will advance from elevation of 240m to 150m, stope mining will take place between sublevels 300 and 390m and later between 150 and 225m. A total of 3,530m of underground workings will be completed; 224kt of ore grading 7.3g/t is expected to be mined at Quartzitovoye in 2019.

# Reserves and Resources

**Review of Ore Reserves and Mineral Resources**
In line with best industry practice, Petropavlovsk reports its Mineral Resources and Ore Reserves in accordance with the JORC Code. These Group Mineral Resource and Ore Reserve estimates are an update on the estimates prepared in April 2017 by Wardell Armstrong International (WAI), a UK based independent technical consultancy firm. The updated estimates incorporate all material exploration completed during 2017 and 2018, as well as reflecting mining depletion in 2017 and 2018.

As at 31 December 2018, total Group Mineral Resources (including Reserves) amounted to 20.52Moz, compared to 20.86Moz in 2017, with total Reserves of 8.21Moz compared to 8.15Moz in the previous year.

The marginal decrease in total Mineral Resources is due to a combined effect of mine depletion, disposals and sterilisation of a part of the Pokrovskiy open pit resource by the development of a POX tailings facility. An estimated 0.49Moz of gold has been depleted and sent to processing during 2018. Non-core, non-producing satellite assets containing an aggregate 0.30Moz of Mineral Resources were disposed of during 2018. In addition, 0.12Moz of open pit Mineral Resources were sterilised by a POX tailings facility and removed from the resource statement. This decrease has been largely compensated by discoveries at Pioneer, Albyn and Malomir.

At Pioneer new Mineral Resources and Ore Reserves were discovered at Katrin, Nikolaevskaya and Ulunginskaya zones. Katrin and Ulunginskaya are both open pits, whilst the new Resources and Reserves at Nikolaevskaya are suitable for underground mining. The Katrin deposit is of a non-refractory nature while Ulunginskaya and Nikolaevskaya are both refractory assets.

At Albyn, an increase in Mineral Resources is associated with discoveries at the western extensions of the Albyn ore body. The ore body has been extended in a down dip direction, allowing initial Resource estimation for potential underground mining at Albyn. During 2018 the results of exploration completed in H2 2017 at the south group of mineralised zones at Unglichikanskoye were interpreted and included in Mineral Resource and Ore Reserve estimates. This led to a 101koz increase in Mineral Resources and a 42koz increase in Ore Reserves for the project.

At Malomir, an increase in both Mineral Resources and Ore Reserves relates to the successful exploration of low-grade stock work mineralisation discovered at Quartzitovoye. The mineralisation was discovered west of the main Quartzitovoe pit, an area currently sterilised by the underground operations. It can be mined via open pit after 2023 once the mining at the Quartzitovoye underground mine is completed and the mine is decommissioned. In addition, metallurgical tests confirmed that existing RIP tailings contained c.0.17Moz of gold at 0.5g/t average grade and this material can be re-processed via flotation and POX. Consequently, these additions have now been included into Mineral Resource and Ore Reserve statements. All these additions are refractory.

Taking into account the 0.49Moz Mineral Resource and Ore Reserve depletion from mining operations and 0.30Moz of Mineral Resource disposals during 2018, the Group achieved a 0.45Moz gross increase in Mineral Resources compared to the 31/12/2017 statement. Ore Reserves increased by 0.56Moz and to a total of 8.21Moz.

Total Reserves for underground mining marginally increased from 0.43Moz to 0.44Moz, whilst underlying Mineral Resources for potential underground mining increased by 26% from 0.94Moz to 1.19Moz. This increase is largely attributable to new Mineral Resources estimated at Pioneer's Nikolaevskaya Zone and below the Albyn main pit. Because the existing open pit at Pokrovka 1 has now been decommissioned and used as POX tailings storage further open pit mining in this area is no longer feasible. A higher grade part of Mineral Resources remaining below this open pit was re-classified and reported as a Resource for potential underground mining. This change contributed to the overall increase in underground Mineral Resources.

Following successful commissioning of the Pokrovskiy POX Hub, some of the transitional Mineral Resources and Ore Reserves suitable for either RIP or refractory processing, were reclassified from non-refractory to refractory. As a result of this change, and due to the success of the 2018 exploration campaign, total refractory Resources increased by 2.69Moz (from 9.64Moz) to 12.33Moz. There was a corresponding decrease in the non-refractory Mineral Resources which went down from 11.23Moz to 8.19Moz. This change also reflects mine depletion and disposals. All the ounces disposed of were non-refractory. As the result of this re-classification, first refractory Reserves and Resources were classified at Elginskoye within the Albyn project.

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

## Group Total Ore Reserves as at 31/12/2018
*(in accordance with the JORC Code 2012 [1])*

### Total Open Pit and Underground Ore Reserve

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 49,360 | 0.77 | 1.23 |
| | *Probable* | 210,999 | 1.03 | 6.98 |
| | *Proven+Probable* | 260,359 | 0.98 | 8.21 |
| Non-Refractory | *Proven* | 17,943 | 0.69 | 0.40 |
| | *Probable* | 64,572 | 1.21 | 2.50 |
| | *Proven+Probable* | 82,516 | 1.09 | 2.90 |
| Refractory | *Proven* | 31,417 | 0.82 | 0.83 |
| | *Probable* | 146,426 | 0.95 | 4.48 |
| | *Proven+Probable* | 177,843 | 0.93 | 5.31 |

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

### Open Pit Ore Reserve

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 49,033 | 0.73 | 1.15 |
| | *Probable* | 208,967 | 0.98 | 6.61 |
| | *Proven+Probable* | 258,000 | 0.94 | 7.76 |
| Non-Refractory | *Proven* | 17,616 | 0.57 | 0.32 |
| | *Probable* | 63,193 | 1.13 | 2.29 |
| | *Proven+Probable* | 80,809 | 1.01 | 2.61 |
| Refractory | *Proven* | 31,417 | 0.82 | 0.83 |
| | *Probable* | 145,774 | 0.92 | 4.32 |
| | *Proven+Probable* | 177,191 | 0.90 | 5.15 |

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

### Underground Reserve

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 327 | 7.21 | 0.08 |
| | *Probable* | 2,031 | 5.62 | 0.37 |
| | *Proven+Probable* | 2,359 | 5.84 | 0.44 |
| Non-Refractory | *Proven* | 327 | 7.21 | 0.08 |
| | *Probable* | 1,379 | 4.68 | 0.21 |
| | *Proven+Probable* | 1,707 | 5.16 | 0.28 |
| Refractory | *Proven* | – | – | – |
| | *Probable* | 652 | 7.60 | 0.16 |
| | *Proven+Probable* | 652 | 7.60 | 0.16 |

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

# Reserves and Resources continued

**Group Mineral Resources as at 31/12/2018**
*(in accordance with the JORC Code 2012 [1])*

**Total Open Pit and Underground Mineral Resource**

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 69,778 | 0.89 | 1.99 |
| | *Indicated* | 417,735 | 0.90 | 12.06 |
| | *Measured+Indicated* | 487,513 | 0.90 | 14.05 |
| | *Inferred* | 236,188 | 0.85 | 6.47 |
| Non-Refractory | *Measured* | 33,735 | 0.96 | 1.04 |
| | *Indicated* | 144,365 | 1.03 | 4.80 |
| | *Measured+Indicated* | 178,099 | 1.02 | 5.84 |
| | *Inferred* | 58,154 | 1.25 | 2.34 |
| Refractory | *Measured* | 36,043 | 0.82 | 0.95 |
| | *Indicated* | 273,370 | 0.83 | 7.25 |
| | *Measured+Indicated* | 309,414 | 0.82 | 8.20 |
| | *Inferred* | 178,034 | 0.72 | 4.13 |

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

**Open Pit Mineral Resource**

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 68,525 | 0.81 | 1.79 |
| | *Indicated* | 413,124 | 0.86 | 11.44 |
| | *Measured+Indicated* | 481,649 | 0.85 | 13.24 |
| | *Inferred* | 232,070 | 0.82 | 6.09 |
| Non-Refractory | *Measured* | 32,481 | 0.81 | 0.84 |
| | *Indicated* | 141,080 | 0.97 | 4.41 |
| | *Measured+Indicated* | 173,561 | 0.94 | 5.25 |
| | *Inferred* | 54,822 | 1.15 | 2.04 |
| Refractory | *Measured* | 36,043 | 0.82 | 0.95 |
| | *Indicated* | 272,044 | 0.80 | 7.03 |
| | *Measured+Indicated* | 308,088 | 0.81 | 7.98 |
| | *Inferred* | 177,248 | 0.71 | 4.06 |

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

**Underground Mineral Resource**

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 1,253 | 4.93 | 0.20 |
| | *Indicated* | 4,611 | 4.13 | 0.61 |
| | *Measured+Indicated* | 5,864 | 4.30 | 0.81 |
| | *Inferred* | 4,118 | 2.85 | 0.38 |
| Non-Refractory | *Measured* | 1,253 | 4.93 | 0.20 |
| | *Indicated* | 3,285 | 3.70 | 0.39 |
| | *Measured+Indicated* | 4,538 | 4.04 | 0.59 |
| | *Inferred* | 3,332 | 2.89 | 0.31 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | 1,326 | 5.21 | 0.22 |
| | *Measured+Indicated* | 1,326 | 5.21 | 0.22 |
| | *Inferred* | 786 | 2.68 | 0.07 |

*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 31/12/2018

*(in accordance with the JORC Code 2012 [(1)])*

### Pioneer Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 21,154 | 0.64 | 0.44 |
| | *Probable* | 80,301 | 0.80 | 2.06 |
| | *Proven+Probable* | 101,454 | 0.77 | 2.50 |
| Non-Refractory | *Proven* | 8,946 | 0.44 | 0.13 |
| | *Probable* | 13,654 | 0.84 | 0.37 |
| | *Proven+Probable* | 22,600 | 0.68 | 0.49 |
| Refractory | *Proven* | 12,208 | 0.79 | 0.31 |
| | *Probable* | 66,647 | 0.79 | 1.69 |
| | *Proven+Probable* | 78,854 | 0.79 | 2.00 |

### Pioneer Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 152 | 5.03 | 0.02 |
| | *Probable* | 1,679 | 5.86 | 0.32 |
| | *Proven+Probable* | 1,831 | 5.79 | 0.34 |
| Non-Refractory | *Proven* | 152 | 5.03 | 0.02 |
| | *Probable* | 1,027 | 4.75 | 0.16 |
| | *Proven+Probable* | 1,179 | 4.78 | 0.18 |
| Refractory | *Proven* | – | – | – |
| | *Probable* | 652 | 7.60 | 0.16 |
| | *Proven+Probable* | 652 | 7.60 | 0.16 |

### Pioneer Total

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 21,305 | 0.67 | 0.46 |
| | *Probable* | 81,980 | 0.90 | 2.37 |
| | *Proven+Probable* | 103,285 | 0.85 | 2.84 |
| Non-Refractory | *Proven* | 9,098 | 0.51 | 0.15 |
| | *Probable* | 14,681 | 1.11 | 0.52 |
| | *Proven+Probable* | 23,779 | 0.88 | 0.67 |
| Refractory | *Proven* | 12,208 | 0.79 | 0.31 |
| | *Probable* | 67,299 | 0.86 | 1.85 |
| | *Proven+Probable* | 79,506 | 0.85 | 2.16 |

# Reserves and Resources continued

### Malomir Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 19,335 | 0.84 | 0.52 |
| | *Probable* | 69,051 | 1.00 | 2.23 |
| | *Proven+Probable* | 88,386 | 0.97 | 2.75 |
| Non-Refractory | *Proven* | 126 | 1.00 | 0.004 |
| | *Probable* | 618 | 1.37 | 0.03 |
| | *Proven+Probable* | 743 | 1.31 | 0.03 |
| Refractory | *Proven* | 19,210 | 0.84 | 0.52 |
| | *Probable* | 68,434 | 1.00 | 2.20 |
| | *Proven+Probable* | 87,643 | 0.97 | 2.72 |

### Malomir Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 176 | 9.09 | 0.05 |
| | *Probable* | 352 | 4.48 | 0.05 |
| | *Proven+Probable* | 528 | 6.01 | 0.10 |
| Non-Refractory | *Proven* | 176 | 9.09 | 0.05 |
| | *Probable* | 352 | 4.48 | 0.05 |
| | *Proven+Probable* | 528 | 6.01 | 0.10 |
| Refractory | *Proven* | – | – | – |
| | *Probable* | – | – | – |
| | *Proven+Probable* | – | – | – |

### Malomir Total

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 19,511 | 0.92 | 0.58 |
| | *Probable* | 69,403 | 1.02 | 2.28 |
| | *Proven+Probable* | 88,914 | 1.00 | 2.86 |
| Non-Refractory | *Proven* | 301 | 5.72 | 0.05 |
| | *Probable* | 970 | 2.50 | 0.08 |
| | *Proven+Probable* | 1,271 | 3.26 | 0.13 |
| Refractory | *Proven* | 19,210 | 0.84 | 0.52 |
| | *Probable* | 68,434 | 1.00 | 2.20 |
| | *Proven+Probable* | 87,643 | 0.97 | 2.72 |

### Albyn

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| Total | *Proven* | 6,516 | 0.45 | 0.09 |
| | *Probable* | 57,420 | 1.20 | 2.22 |
| | *Proven+Probable* | 63,936 | 1.13 | 2.32 |
| Non-Refractory | *Proven* | 6,516 | 0.45 | 0.09 |
| | *Probable* | 46,726 | 1.20 | 1.80 |
| | *Proven+Probable* | 53,243 | 1.11 | 1.89 |
| Refractory | *Proven* | – | – | – |
| | *Probable* | 10,694 | 1.23 | 0.42 |
| | *Proven+Probable* | 10,694 | 1.23 | 0.42 |

### Tokur

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

*Notes:*

*(1) Group Ore Reserves statements are prepared internally as an update of the April 2017 WAI estimate; Pioneer, Malomir and Albyn Reserves were prepared in February 2019 in accordance with JORC Code 2012; Tokur Reserves were prepared in 2010 in accordance with JORC Code 2004 and there have been no changes to the Tokur estimates since that date.*

*(2) Pioneer, Malomir and Albyn 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 the projected performance of these operating mines. Tokur Reserves have been based on a $1,000/oz gold price assumption, together with operating costs assumptions relevant at the time of the estimate*

*(3) The 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 a mine design with decline access, trackless mining equipment and a sublevel open stope mining method with or without back fill*

*(5) Reserve figures have been adjusted for anticipated dilution and mine recovery*

*(6) The Underground Reserve cut-off grade for reporting is 1.5g/t Au for Pioneer and 1.7g/t Au for Malomir*

*(7) In accordance with JORC Code, all open pit and underground designs has been based on Measured and Indicated Resources; in addition to the Proven and Probable Reserve quoted above the design captures the following Inferred Resource:*

*– Pioneer: 1,281kt@1.04g/t (0.04Moz) of non-refractory and 8,600kt @ 0.61g/t (0.17Moz) of refractory;*

*– Malomir: 277kt @ 3.00g/t (0.03Moz) of non-refractory and 2,644kt@0.96g/t (0.08Moz) of refractory*

*– Albyn 1,921@1.38g/t (0.09Moz) of non-refractory and 348kt@ 1.08g/t (0.01Moz) of refractory*

*(8) Figures may not add up due to rounding*

**Summary of Mineral Resources by Asset as at 31/12/2018**
*(in accordance with JORC Code 2012 [1])*

**Pokrovskiy Open Pit**

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 4,182 | 0.70 | 0.09 |
| | *Indicated* | 19,954 | 0.62 | 0.40 |
| | *Measured+Indicated* | 24,136 | 0.63 | 0.49 |
| | *Inferred* | 5,872 | 0.88 | 0.17 |
| Non-Refractory | *Measured* | 4,182 | 0.70 | 0.09 |
| | *Indicated* | 19,954 | 0.62 | 0.40 |
| | *Measured+Indicated* | 24,136 | 0.63 | 0.49 |
| | *Inferred* | 5,872 | 0.88 | 0.17 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | – | – | – |
| | *Measured+Indicated* | – | – | – |
| | *Inferred* | – | – | – |

**Pokrovskiy Underground**

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 827 | 3.20 | 0.09 |
| | *Indicated* | 1,196 | 2.45 | 0.09 |
| | *Measured+Indicated* | 2,023 | 2.76 | 0.18 |
| | *Inferred* | 506 | 2.96 | 0.05 |
| Non-Refractory | *Measured* | 827 | 3.20 | 0.09 |
| | *Indicated* | 1,196 | 2.45 | 0.09 |
| | *Measured+Indicated* | 2,023 | 2.76 | 0.18 |
| | *Inferred* | 506 | 2.96 | 0.05 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | – | – | – |
| | *Measured+Indicated* | – | – | – |
| | *Inferred* | – | – | – |

**Pokrovskiy Total**

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 5,009 | 1.11 | 0.18 |
| | *Indicated* | 21,150 | 0.72 | 0.49 |
| | *Measured+Indicated* | 26,159 | 0.79 | 0.67 |
| | *Inferred* | 6,378 | 1.04 | 0.21 |
| Non-Refractory | *Measured* | 5,009 | 1.11 | 0.18 |
| | *Indicated* | 21,150 | 0.72 | 0.49 |
| | *Measured+Indicated* | 26,159 | 0.79 | 0.67 |
| | *Inferred* | 6,378 | 1.04 | 0.21 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | – | – | – |
| | *Measured+Indicated* | – | – | – |
| | *Inferred* | – | – | – |

## Pioneer Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 25,107 | 0.67 | 0.54 |
| | *Indicated* | 162,330 | 0.69 | 3.60 |
| | *Measured+Indicated* | 187,437 | 0.69 | 4.14 |
| | *Inferred* | 62,629 | 0.60 | 1.21 |
| Non-Refractory | *Measured* | 9,190 | 0.45 | 0.13 |
| | *Indicated* | 37,752 | 0.69 | 0.84 |
| | *Measured+Indicated* | 46,941 | 0.65 | 0.98 |
| | *Inferred* | 6,827 | 0.74 | 0.16 |
| Refractory | *Measured* | 15,918 | 0.79 | 0.40 |
| | *Indicated* | 124,578 | 0.69 | 2.76 |
| | *Measured+Indicated* | 140,496 | 0.70 | 3.16 |
| | *Inferred* | 55,803 | 0.58 | 1.04 |

## Pioneer Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 183 | 6.38 | 0.04 |
| | *Indicated* | 2,637 | 5.08 | 0.43 |
| | *Measured+Indicated* | 2,820 | 5.16 | 0.47 |
| | *Inferred* | 1,297 | 3.04 | 0.13 |
| Non-Refractory | *Measured* | 183 | 6.38 | 0.04 |
| | *Indicated* | 1,311 | 4.95 | 0.21 |
| | *Measured+Indicated* | 1,495 | 5.12 | 0.25 |
| | *Inferred* | 511 | 3.59 | 0.06 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | 1,326 | 5.21 | 0.22 |
| | *Measured+Indicated* | 1,326 | 5.21 | 0.22 |
| | *Inferred* | 786 | 2.68 | 0.07 |

## Pioneer Total

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 25,291 | 0.71 | 0.58 |
| | *Indicated* | 164,968 | 0.76 | 4.03 |
| | *Measured+Indicated* | 190,258 | 0.75 | 4.61 |
| | *Inferred* | 63,927 | 0.65 | 1.33 |
| Non-Refractory | *Measured* | 9,373 | 0.57 | 0.17 |
| | *Indicated* | 39,064 | 0.84 | 1.05 |
| | *Measured+Indicated* | 48,437 | 0.78 | 1.22 |
| | *Inferred* | 7,338 | 0.94 | 0.22 |
| Refractory | *Measured* | 15,918 | 0.79 | 0.40 |
| | *Indicated* | 125,904 | 0.74 | 2.98 |
| | *Measured+Indicated* | 141,822 | 0.74 | 3.39 |
| | *Inferred* | 56,589 | 0.61 | 1.11 |

### Malomir Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 20,248 | 0.84 | 0.55 |
| | *Indicated* | 133,488 | 0.87 | 3.74 |
| | *Measured+Indicated* | 153,736 | 0.87 | 4.29 |
| | *Inferred* | 107,375 | 0.71 | 2.47 |
| Non-Refractory | *Measured* | 135 | 0.99 | 0.004 |
| | *Indicated* | 802 | 1.19 | 0.03 |
| | *Measured+Indicated* | 936 | 1.16 | 0.03 |
| | *Inferred* | 513 | 0.82 | 0.01 |
| Refractory | *Measured* | 20,113 | 0.84 | 0.54 |
| | *Indicated* | 132,686 | 0.87 | 3.71 |
| | *Measured+Indicated* | 152,800 | 0.87 | 4.25 |
| | *Inferred* | 106,862 | 0.71 | 2.45 |

### Malomir Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 243 | 9.71 | 0.08 |
| | *Indicated* | 403 | 4.37 | 0.06 |
| | *Measured+Indicated* | 646 | 6.38 | 0.13 |
| | *Inferred* | 354 | 3.45 | 0.04 |
| Non-Refractory | *Measured* | 243 | 9.71 | 0.08 |
| | *Indicated* | 403 | 4.37 | 0.06 |
| | *Measured+Indicated* | 646 | 6.38 | 0.13 |
| | *Inferred* | 354 | 3.45 | 0.04 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | – | – | – |
| | *Measured+Indicated* | – | – | – |
| | *Inferred* | – | – | – |

### Malomir Total

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 20,492 | 0.95 | 0.62 |
| | *Indicated* | 133,891 | 0.88 | 3.79 |
| | *Measured+Indicated* | 154,382 | 0.89 | 4.42 |
| | *Inferred* | 107,728 | 0.72 | 2.51 |
| Non-Refractory | *Measured* | 378 | 6.60 | 0.08 |
| | *Indicated* | 1,204 | 2.25 | 0.09 |
| | *Measured+Indicated* | 1,582 | 3.29 | 0.17 |
| | *Inferred* | 867 | 1.89 | 0.05 |
| Refractory | *Measured* | 20,113 | 0.84 | 0.54 |
| | *Indicated* | 132,686 | 0.87 | 3.71 |
| | *Measured+Indicated* | 152,800 | 0.87 | 4.25 |
| | *Inferred* | 106,862 | 0.71 | 2.45 |

### Albyn Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 7,023 | 0.50 | 0.11 |
| | *Indicated* | 81,256 | 1.21 | 3.16 |
| | *Measured+Indicated* | 88,291 | 1.15 | 3.27 |
| | *Inferred* | 45,488 | 1.29 | 1.88 |
| Non-Refractory | *Measured* | 7,023 | 0.50 | 0.11 |
| | *Indicated* | 66,477 | 1.21 | 2.59 |
| | *Measured+Indicated* | 73,499 | 1.15 | 2.71 |
| | *Inferred* | 30,904 | 1.33 | 1.32 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | 14,792 | 1.19 | 0.57 |
| | *Measured+Indicated* | 14,792 | 1.19 | 0.57 |
| | *Inferred* | 14,584 | 1.20 | 0.56 |

### Albyn Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | – | – | – |
| | *Indicated* | 375 | 2.61 | 0.03 |
| | *Measured+Indicated* | 375 | 2.61 | 0.03 |
| | *Inferred* | 1,961 | 2.58 | 0.16 |
| Non-Refractory | *Measured* | – | – | – |
| | *Indicated* | 375 | 2.61 | 0.03 |
| | *Measured+Indicated* | 375 | 2.61 | 0.03 |
| | *Inferred* | 1,961 | 2.58 | 0.16 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | – | – | – |
| | *Measured+Indicated* | – | – | – |
| | *Inferred* | – | – | – |

### Albyn Total

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| Total | *Measured* | 7,023 | 0.50 | 0.11 |
| | *Indicated* | 81,644 | 1.22 | 3.19 |
| | *Measured+Indicated* | 88,666 | 1.16 | 3.31 |
| | *Inferred* | 47,449 | 1.34 | 2.04 |
| Non-Refractory | *Measured* | 7,023 | 0.50 | 0.11 |
| | *Indicated* | 66,852 | 1.22 | 2.63 |
| | *Measured+Indicated* | 73,874 | 1.15 | 2.74 |
| | *Inferred* | 32,866 | 1.40 | 1.48 |
| Refractory | *Measured* | – | – | – |
| | *Indicated* | 14,792 | 1.19 | 0.57 |
| | *Measured+Indicated* | 14,792 | 1.19 | 0.57 |
| | *Inferred* | 14,584 | 1.20 | 0.56 |

# Reserves and Resources continued

### Tokur

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (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 | 0.5 |
| | *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* | – | – | – |

*Notes:*

*(1) Mineral Resources include Ore Reserves*

*(2) Mineral Resource estimates for Pokrovskiy, Pioneer, Malomir and Albyn were prepared internally by the Group in accordance with JORC Code 2012 as an update of the April 2017 statement audited by WAI; Mineral Resources for Tokur were reviewed by WAI in 2010 in accordance with JORC Code 2004 and there have been no changes to the Tokur estimates since that date*

*(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 Mineral Resources for open pit mining varies from 0.30 to 0.35g/t depending on the type of mineralisation and proposed processing method*

*(5) A cut-off grade of1.5g/t is used to report Mineral Resources for potential underground mining*

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

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

# Exploration Update

## Pioneer

The most significant 2018 exploration results were achieved at Katrin, Nikolaevskaya and Ulunginskaya zones. Some early stage exploration also took place at Aprelskiy and Ulagach.

The 2018 drilling campaign at Katrin was predominantly to in-fill the existing drill grid with only a few holes targeting ore body extensions. The most significant 2018 Katrin intersections include:

- 16.8m @ 1.75g/t (C-516-25, interval 167.6m-184.4m);
- 18.0m @ 1.41g/t (C-516-23, interval 146.0m-164.0m);
- 11.0m @ 1.90g/t (C-515-23, interval 117.4m-128.4m);
- 4.3m @ 1.21g/t (C-507-38, interval 62.5m-66.8m); and
- 13.4m @ 1.01g/t (C-507-44, interval 132.6m-146.0m).

These intersections have been included in the Katrin resource estimate, resulting in an increase in both Mineral Resources and Ore Reserves. Katrin Ore Reserves increased by c.30koz (before depletion).

A total of 34 drill holes were completed at Nikolaevskaya during 2018, principally targeting open pit resources with particular emphasis on in-filling the existing drill grid and increasing confidence in the resource estimate.

Of the five drill holes drilled 150 to 200m north of Nikolaevskaya, outside known mineralisation, one particular drill hole (no C-2297) intersected with a high-grade interval (23.2m @ 3.33g/t, including 6.3m @ 8.54g/t) at a depth of c.75m from surface. This new and previously unknown zone of mineralisation may become an attractive open pit and/or underground mining target and as such warrants further exploration. Exploration at Nikolaevskaya in 2018 resulted in 57koz and 63koz increase in Mineral Resources and Ore Reserves respectively. Average grades of Nikolaevskaya underground Reserves increased by 40% from 5.43g/t to 7.60g/t.

Exploration at the Shirokaya zone (an area part of Alexandra, north of Pioneer) involved mostly in-fill drilling to improve confidence in the resource estimate. The results are in-line with the existing resource model and expect to convert some of the Inferred Resources into the Indicated category, which should allow increase in Shirokaya Ore Reserve. Most of the Shirokaya mineralisation is refractory and relatively low grade; as such, this area is not a high priority for further 2019 exploration.

A new 270m zone of refractory zone of mineralisation named Ulunginskaya, located south-east of the Pioneer plant, was delineated during 2018. The zone has a north to south strike with a steep dip. It was proven by drilling on 40m to 80m spaced drill profiles to a depth of 100 to 120m from the surface, and remains open at depth. Significant intersections include:

- 45.5m @ 1.69g/t (C-2452, interval 93.3m-138.8m);
- 20.7m @ 1.38g/t (C-2481, interval 100.5m-121.2m);
- 15.1m @ 0.62g/t (C-2486A, interval 92.1m-107.2m); and
- 27.0m @ 0.86g/t (C-2499, interval 97.6m-124.6m).

Formal Ulunginskaya resource estimates have now been completed, adding 74koz and 21koz of gold to the Mineral Resource and Ore Reserve statement respectively. As the mineralisation has been proven to be refractory, Ulunginskaya is not a high priority for further exploration.

Early stage exploration was carried out at the Aprelskiy exploration target, an area of extensive historical alluvial production located c.15km west of the Pioneer processing plant. Thirteen drill holes were completed there in H1 2018. The best intersections include

- 0.8m @ 2.69g/t (86-32);
- 2.2m @ 1.89g/t (C-88-6);
- 1.6m @ 1.38g/t (C-90-4);
- 4.6m @ 0.85g/t (C-94-6); and
- 2.2m @ 1.21g/t (C-98-30).

The gold grades at Aprelskiy are associated with quartz veins and veinlets containing arsenopyrite-pyrite sulphide mineralisation. Although the mineralisation discovered so far is unlikely to represent an immediate development interest due to its narrow thickness and relatively low grade, the presence of significant alluvial gold deposits historically known at Aprelskiy suggest further exploration may identify a more attractive mining target.

Early stage exploration continued at Ulagach, an exploration target c.20km east of Pokrovskiy and 10km south of Katrin. Trenches completed over the gold and gold-arsenic geochemical anomalies identified after evaluation of 2017 field work results discovered three intersections:

- 7.2m @ 1.74g/t;
- 1.5m @ 0.74 g/t; and
- 2.0m @ 0.79g/t.

Gold mineralisation discovered at Ulagach associated with disseminated sulphides hosted within Jurassic sandstone close to a contact with Cretaceous granitoids. As Ulagach geology has certain similarities with the geology of Pioneer and Pokrovskiy, Group specialists believe it offers potential for discovery of a gold mineralisation of a significant scale.

Exploration completed at the North East Bakhmut underground mine during H1 2018 was production-related and as such did not result in any significant resource expansion.

### Albyn

In 2018, exploration at Albyn targeted deeper extensions of both the Sukholozhskiy Zone and the main ore body at Albyn. A total of 52 drill holes were drilled, including 49 resource definition holes on a nominal 40m by 40m drill grid at Sukholozhskiy, and 3 prospecting holes to prove deeper extensions of the main Albyn ore body. The results received to date are very encouraging – the prospecting hole completed at Albyn (C-225-28-313), intersected two intervals of gold mineralisation potentially suitable for underground mining: 417.7m - 427.7m (10.0m @ 4.41g/t) and 439.6m-443.6m (4.0m @ 3.76g/t). These intersections are situated 150m and 180m below the final Albyn pit respectively and mineralisation still remains open in a down-dip direction.

Resource definition and resource expansion drilling at Sukholozhskiy intersected further down-dip with the best intersections including:

- 1.7m @ 12.1g/t (C-139-5, interval 156.5-158.2m);
- 2.5m @ 7.84g/t (C-139-5A, interval 185.3m-187.8m);
- 1.4m @ 55.51g/t (C-143-4, interval 214.6m-216.0m);
- 1.9m @ 7.86g/t (C-133-4, interval 193.0m-194.9m);
- 1.0m @ 18.1g/t (C-129-3, interval 184.2m-184.9m); and
- 0.8m @ 13.8g/t (C-191-031, interval 80.2m-81.0m).

As Sukholozhskiy was an attractive mining target, this area was mined during 2018.

Petropavlovsk specialists believe an exploration target for potential underground mining at Albyn ought to be at least equivalent in size to total Albyn production to date (c.1Moz). All metallurgical tests completed to date suggest deeper extensions of Albyn are non-refractory and readily suitable for processing through the existing Albyn processing plant.

A small amount of exploration, including trenches, has been completed at Yasnoye and some other smaller exploration targets near Albyn. This work identified new gold mineralisation which warrants further work, but this remains a low priority compared to Elginskoye, Unglichikanskoye and Albyn.

### Malomir

All material exploration completed at Malomir relates to underground mining at Quartzitovoye and predominantly involved reserve definition drilling and sampling.
Ten drill holes completed at zone 49 proved 50m strike and 100m down dip extensions of high-grade mineralisation which is yet to be incorporated into the Mineral Resource and Ore Reserve estimate. New significant zone 49 intersections include:

- 1.6m @ 17.75g/t (C-608P-2, interval 62.4-64.0m);
- 2.0m @ 10.5g/t (C-613P-21, interval 35.0-37.0m);
- 1.0m @ 19.7g/t (C-613P-21, interval 96.5-97.5m);
- 13.0m @ 25.17g/t (C-612P-20, interval 90.5-103.5m); and
- 2.9m @ 5.67g/t (C-612P-21, interval 70.1-73.0m).

Zone 49 remains open downdip and offers further exploration potential to increase resources and reserves for underground mining.

In addition, underground workings intersected low grade stockwork between Quartzitovoye areas 1 and 2, which is suitable for open pit mining once the Quartzitovoye underground mine is completed; 112koz of Ore Reserves were added in this area in 2018.

### Khabarovsk Exploration Assets

In H2 2018 Group acquired two early stage exploration assets in Khabarovsk region:

- Verkhne Udskaya; and
- Chogarskaya.

Both properties are in proximity to known alluvial gold deposits and have geology deemed to be favourable for hosting orogenic type hard rock gold deposits. Both areas were subject to a systematic hard rock early stage exploration/prospecting in the 1960’s when the Government funded 1:200 000 scale mapping and prospecting program was completed. Later in 2005-2006 smaller scale prospecting focusing on exploration targets identified by 1960’s work was also undertaken. Historical trenching and geological traverses identified grades up to 68g/t in selected samples. Significant Verkhne Udskaya historical trench intersections include:

- 8.0m@ 2.5g/t;
- 7.0m @ 3.93g/t;
- 3.0m @ 3.2g/t; and
- 2.0m @ 2.2g/t.

Historical work only involved trenching and geological traverses. No drilling was completed at these properties to date therefore Verkhne Udskaya and Chogarskaya are considered underexplored offering potential for significant discoveries.

Verkhne Udskaya and Chogarskaya are located 120km and 160km north-north west and north from Malomir respectively. These licences are one of the priority exploration areas for 2019.

# IRC

IRC produces and develops industrial commodities. Based in the Russian Far East, it benefits from low production costs and proximity to China, the world's largest consumer of IRC's main product, iron ore. IRC was part of Petropavlovsk's Non-Precious Metal Division before it was listed on The Stock Exchange of Hong Kong in 2010 (ticker: 1029.HK) as a separate entity. With a holding of 31.1%, Petropavlovsk is the largest IRC shareholder, although it should be noted that IRC is an associate of the Company and not a subsidiary. As from 15 February 2019, Petropavlovsk acts as a guarantor in relation to a new US$240 million Gazprombank Facility - please refer to the Refinancing of the ICBC Project Finance Facility section below for further details.

**IRC assets**

IRC's key mining assets are K&S and Kuranakh.

- K&S: a mine producing 65% iron ore concentrate with a 20-year mine life, located in the Jewish Autonomous Region (EAO) of the Russian Far East. The project is currently in phase one of two phases, and once ramped up, is expected to have a full annual capacity of 3.2 million tonnes; and
- Kuranakh: a mine producing iron ore / ilmenite concentrate located in the Amur region, Russian Far East, currently in care and maintenance. IRC are conducting a strategic review to consider restarting Kuranakh, following stabilisation of bulk commodity prices.

IRC's non-core mining assets are those that are not expected to contribute substantially to revenue in the short to medium term. They include:

- Bolshoi Seym: an ilmenite deposit with Indicated and Inferred Mineral Resources, located north of Kuranakh;
- The Garinskoye flanks: the area surrounding Garinskoye which is at an early stage of exploration; and
- Kostenginskoye: an area 18km south of K&S which is at an early stage of exploration.

The Garinskoye Flanks and Kostenginskoye do not yet have JORC compliant Mineral Resources and Ore Reserves.

**Operational Performance in 2018**

**K&S**

In 2018, K&S continued to make good progress with the ramp up of phase one, transitioning from a development project into a cash generating mine. Once completed and fully ramped up, phase one is expected to result in the annual production of 3.2million tonnes of iron ore concentrate with a 65% iron (Fe) content. As iron ore prices continued their uptrend in 2018, the benchmark 65% Fe Platts spot price index averaged US$90 per tonne.

Annual production of iron ore concentrate increased 43% to 2,234,517 tonnes, with the plant operating at a steady state capacity of approximately 70% and rising to an average capacity of c.86% in the second half of February 2019. The plant successfully operated at 105% of its design capacity during a 24-hour production run earlier this year, and an additional continuous 72-hour run at more than 90% of design capacity. The successful tests demonstrated the capability of the plant to run at design capacity for a prolonged period. Despite, technical issues with the Drying Unit at the beginning of 2018 which affected production, improved weather conditions reduced the need for the Drying Unit which simplified the production process alongside with commissioning programme.

During the year, the Russian Railway Authority resolved the congestion issue at the Trans-Siberian Railway, which had been affecting shipment of products to customers. At the end of March 2019, the Amur River Bridge was connected which, once it becomes operational later in 2019, will further reduce congestion and shorten shipment times to IRC's Chinese customers.

**Kuranakh**

Kuranakh was moved to care and maintenance at the beginning of 2016 in response to a challenging operating environment and lower iron prices. There were no sales of iron ore concentrate or ilmenite from Kuranakh in 2018.

The care and maintenance programme involves limited costs to keep the mine and plant available for reopening in the future. Prior to being moved to care and maintenance, Kuranakh produced approximately 1.1 million tonnes of iron ore concentrate and 0.2 million tonnes of ilmenite per annum. The potential to restart the Kuranakh mine represents significant upside potential for IRC shareholders. During 2018, IRC conducted a strategic review to consider restarting Kuranakh on the basis that the iron ore market upside prevails.

**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.

**Refinancing of the ICBC Project Finance Facility**

In December 2018, IRC announced the agreement of a US$240 million facility with Gazprombank to repay in full K&S's outstanding debt with ICBC of US$169 million, borrowed under K&S's project finance facility. The New Facility will mature in 2026, consisting of two tranches. The principal under the first tranche amounts to US$160 million with interest charged at 5.7% above LIBOR per annum which is repayable in equal quarterly payments during the facility term. The principal under the second tranche amounts to US$80 million with interest charged at 7.7% above LIBOR per annum and is repayable at the end of the facility term.

On 19 March 2019, the refinancing of the ICBC loan has been successfully completed and the facility has been drawn down and used to repay the outstanding ICBC facility of US$169 million; two bridge loans advanced by the Company to IRC, amounting to c.US$57 million; and will enable full payment of fees of c.US$6 million owing to Petropavlovsk in relation to the guarantee provided for the ICBC facility with a further US$5 million payable no later than 31 March 2020.

For further details, please refer to IRC's announcements dated 28 November 2018, 19 December 2018, 15 February 2019 and 20 March 2019 at www.ircgroup.com.hk

**FY 2018 Financial Results**

2018 has been a year of growth for IRC, with reported iron ore concentrate sales of over 2.2 million tonnes, a c.44% increase compared to 2017, at a selling price of US$68 per tonne (2017: US$70 per tonne). Due to increased sales, IRC reported a 39% increase in revenue totalling US$152 million (2017: US$109 million). While the 2018 headline profit was affected by a non-cash adjustment (impairment loss reversal of US$91 million), the underlying performance of the business improved significantly, resulting in a 42% increase in adjusted EBITDA to US$29 million (2017: US$20 million).

# Sustainability

# Key Performance Indicators

Our key performance indicators appear throughout this report and introduce the operational and sustainability sections and the CFO statement respectively (pages 35, 69 and 84).

### Lost Time Injury Frequency Rate


**Definition**
Lost Time Injury Frequency Rate (LTIFR) is a measure of the rate of recorded accidents, including fatalities, which occur on Group premises within the reporting period, per million manhours worked. LTIFR for the Group excludes IRC, which has separate HSE management systems.

**Relevance**
The health and safety team strive to maintain a safe environment at the Group's operations which includes implementing safety protocols, providing protective equipment and mitigating risks. The LTIFR is one of the key indicators that the Group relies upon to measure the effectiveness of the occupational health and safety policies, and to identify trends and areas of focus. It 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 2018**
For the year ended 31 December 2018, Group operations recorded an LTIFR of 2.52 accidents per million-man hours worked.

It is with the utmost regret that we report one fatality in November 2018. The aforementioned incident happened at Albyn site in a very unfortunate road accident. The mandatory Company practices were implemented following the fatality with all sites and divisions receiving a note on the accident to familiarize the employees with the incident and prevent occurrence of such accidents at other sites.

Orders were issued to:

- Carry out extraordinary health and safety briefings and instructions;
- Conduct extraordinary health and safety exam for the drivers (where relevant);
- Reinforce preparatory safety measures going into the cold weather, with winter being notorious both for vehicles and pedestrians;
- Inspect the internal site roads and improve the conditions where necessary; and
- Extra training has been given to relevant employees to reinforce safe working practices.

In addition to this, gap analysis on road safety was performed in order to rectify the drawbacks and improve where prompted by the necessity. Any recommendations that arise from the report will immediately be implemented on site.

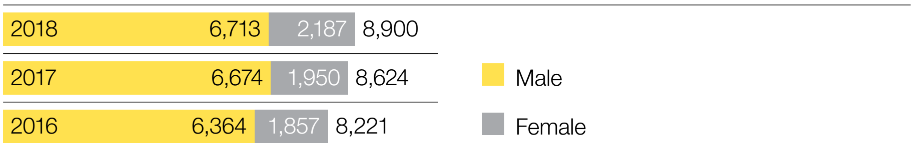
Our employees are the key priority for the Group and, therefore, the management is always focused on creating a safer workplace in the Company via promoting the health and safety culture to ensure them returning safely back home from work.

**Going Forward**
Petropavlovsk is continuously analysing its health and safety performance, learning lessons and improving its work in the field. The Group uses all available tools to the maximum – inclusive of health and safety campaigns to unite all the divisions, applying the inter-corporate communication at all levels – the Company is there to prove itself a worthy employer in the industry, while being one of the reputable major players in the Amur region and in Russia overall.

Our most significant goal is to keep the level of health and safety awareness to its utmost by constantly drawing attention to the health and safety matters through the reinforcement of the safety procedures, addressing management and employees at all levels and making sure everyone is involved.

# Key Performance Indicators continued

### Total Headcount and Gender Split




**Definition**
Total Headcount is the total number of full-time staff employed by the Group, while Gender Split is the number of male and female staff as a proportion of the overall workforce. Both data points are reported as at 31 December of each calendar year.

**Relevance**
This KPI helps management to keep track of not only the size of the workforce over time but also to ensure that there is a balanced split of male and female employees throughout the business. Management firmly believes that the Group's ongoing success depends in part on its ability to hire, motivate, develop and retain staff with the right skills and experience, to help them master challenges and make the most of opportunities. Although traditionally the mining industry in Russia has been heavily male dominated, the Group actively seeks to apply meritocratic principles and provides equal opportunities and pay for all employees, regardless of gender. Female employees occupy senior positions across the business and include departmental heads, deputy directors, chief accountants and managers of laboratories. As of 2010 Petropavlovsk also provides the opportunity for women to work as heavy machine operators.

**Performance in 2018**
Total headcount increased by 3% in 2018 to 8,900 employees across the Group.

As at 31 December 2018, 2187 employees were female, representing almost a quarter of the Group's total workforce. The ratio of female employees increased by 2% when compared to the previous year's ratio.

**Going forward**
Staff diversity reviews at Petropavlovsk are conducted on an ongoing basis. The Group is committed to operating as a responsible employer, promoting the fair treatment, non-discrimination, and equal opportunity of workers as required under both Russian and UK law. As the business continues to grow, evolve and develop, as part of the resourcing and HR strategy, the Group will seek to ensure that it continues to hire a diverse range of well qualified personnel.

## Greenhouse Gas Emission (GGE)

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

| | |
|---|---|
| 2018 | 1.01 |
| 2017 | 1.01 |
| 2016 | 0.97 |

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

| | |
|---|---|
| 2018 | 218,854 |
| 2017 | 227,305 |
| 2016 | 222,847 |

**Combustion of fuel and operation of facilities (Tonnes of CO2e)**

| | |
|---|---|
| 2018 | 209,043 |
| 2017 | 218,502 |
| 2016 | 182,408 |

### 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 Greenhouse Gas Emission (GGE) 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 GGE associated with grid electricity are reported by the generator. However, for transparency purposes, the GGE associated with our consumption of electricity has been reported. 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 above are Gross as no deductions, for export of renewable energy or purchase of certified emission reduction, are applicable.

### Relevance

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

### Verification / Assurance

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

### Performance in 2018

As a gold producer, the Group's prime metric is the amount of gold produced per calendar year, measured in troy ounces. In 2018, Petropavlovsk produced 422.3koz and this figure has been used to calculate our intensity metric.

2018 GGE originated from the following sources:

- Diesel: used in our fixed equipment including crushers, screens and pumps, and mobile equipment including excavators, trucks, bulldozers and cars;
- Kerosene: used in our helicopters;
- Benzene: used in our cars; and
- Coal: used in our heating plants. All heat produced is used for The Group's own consumption

### Going Forward

The Group continues to monitor GGE and reviews all relevant data on a regular to analyse where improvements can be made.

# Introduction to Safety, Sustainability & Workforce Committee Report

## Dear Shareholder

I am pleased to be writing to you in my capacity as Chairman of the newly constituted Safety, Sustainability & Workforce Committee (the "SS&W Committee') and to introduce this, the 2018 Sustainability Report.

The SS&W Committee was formed in November 2018. The remit of this Committee is to review and monitor the Group's safety, health, environment and sustainability processes and procedures. In addition, an important responsibility of the Committee, will be to monitor and assist with community relations and workforce engagement and alignment on behalf of the Board.

Regrettably, shortly after the formation of the Committee, we were advised of the sad death of Mr Pichinin an employee at our Albyn mine. Mr Pichinin tragically died in a road accident whilst travelling from his accommodation facility to the process plant where he worked. On behalf of the Committee, and indeed the Board, I extend our sincere condolences to Mr Pichinin's family, friends and work colleagues.

Our priority, is to assist management in achieving an improved health and safety environment, recognising the basic fundamental right of each of our employees to go home to their families and friends unharmed after each shift rotation. We will strive to achieve best industry practice, with the aim of eliminating fatalities and serious accidents, and achieving continuous improvement in the reduction of our Lost-Time Injury Frequency Rate (LTIFR).

I am pleased to report a c.19% decrease in the Group's LTIFR for 2018 compared with 2017. The Committee's aim is to reduce this further in 2019 and during the years beyond. Further details of management's plans to build upon these results and improve our health and safety record further in 2019, reducing the LTIFR at each mine is provided on pages 79 to 80.

With regards to the impact of our operations on the environment and community, management continues to look for opportunities to minimise the Group's carbon footprint and its impact on the environment. The biodiversity case study included on page 83 of this Report further demonstrates our commitment to protecting the environment in which we operate.

The Committee has noted with sadness the recent widely reporting tailings dam failures in Brazil which resulted in the tragic loss of life and destruction to local communities and the environment. We have considered our tailings storage facilities in the light of these events. We recognise that if our tailings dams were to fail it could have a major impact on the local environment. However, there are no villages or people living in the path in the highly unlikely event of any failures of our facilities. In addition we use a different (downstream) method of construction than used in Brazil. All of the Group's tailing management facilities are insured, operated and monitored in accordance with the legislation of the Russian Federation. Examinations and monitoring are performed on a daily basis and, as a result, the risk is considered low.

In fulfilling our remit, we will work together with the Executive team and members of management. In addition, the Committee will engage with the Group's workforce in order to understand their views and any concerns they might have, communicating these to the Board such that they can be taken into account in the Board's discussions and decision making. As an initial step, I and my colleagues on the Committee travelled to the Group's operations in early April 2019. We met with both workforce and trade union representatives, including the Chairman of the independent trade-union organization of Pokrovskiy mine, discussing a wide scope of matters including safety, sustainability and the culture of the Company, including the programmes in place to ensure the wellbeing of our employees. The Committee also met with the Head of Health & Safety at Malomir and also with the Head of our Environmental Department, Ms Vera Usova who presented to the Committee on the Group's approach to its environmental management.

I was impressed by the quality of the employees that we met, their passion and commitment to the success of the Group and their contribution to the continued improvement in our health, safety and environmental processes, which is of benefit to all of our stakeholders.

The Group prides itself on the diversity of its workforce. Despite the fact that the mining sector is, and has historically been, male dominated, almost a quarter of our workforce is female, with a 2% increase during 2018, and real opportunities for personal growth for women within Petropavlovsk. In this report we include the case study of Ms Olga Anokhina, head of the Pokrovskiy factory analytical laboratory provided on page 75.

I met in Blagoveshchensk with Uliana Levanova, Head of Welfare and Community Liaison discussing the sustainability and community challenges that we face. This has provided me with a better understanding of how the Company tries to engage with local communities, how it contributes to local activities and culture and the importance that is attributed to good communication and problem solving.

The recent commissioning of POX, which is critical to the future success of the Group, was a significant milestone for the Company. The Committee recognises that the construction of a new and complex metallurgical facility brings added challenges particularly in the area of process safety. Our senior management has devoted considerable time, assisted by the relevant authorities as appropriate, to develop and implement extensive training for those employees who will be operating and working at the POX Hub. An overview of the actions taken by the Group in this respect is detailed on pages 79 to 80. The Committee will continue to focus on this matter during 2019.

We recognise that some additional risks are also inherent in our underground mining operations when compared with open pit mining. Accordingly, we will also pay particular attention to the health and safety procedures at these operations where extensive training has been provided for the workforce.

As a newly formed Committee, our programme for 2019, will include a review of the Group's health, safety and environmental policies and procedures, and where appropriate we will make recommendations to bring such policies in line with best industry standard. Health and safety is a matter not only for the Board and the SS&W Committee but for all of our workforce and our employees are actively encouraged to provide ideas regarding improvements to our operations, including those relating to health and safety. We aim to cultivate an environment where health and safety is the priority and where each and every one of us is vigilant in looking out for each other.

I hope that you will find this Sustainability Report informative.

I look forward to reporting on the progress made by the SS&W Committee next year.

**Harry Kenyon-Slaney**
Chairman, Safety, Sustainability & Workforce Committee

# Our Approach to Sustainable Development

At Petropavlovsk, we recognise the socio-economic influence we have as a major employer and taxpayer in the Amur region. Nearly two thirds of our employees are local and we work with local contractors, particularly on large-scale projects such as the POX Hub development. This further reinforces the Company's economic impact in the region. Our objective is to act in the interests of all of our stakeholders by ensuring our activities are efficient, responsible, transparent and sustainable.

In planning our approach to business, we recognise that we have duties to our shareholders and responsibilities to a wider group of stakeholders (those who can affect or who are affected by our activities). We believe that with the right approach, health, safety environmental performance and community engagement can be continually improved.

We are committed to undertaking all our operations in compliance with Russian regulatory requirements and international good practice, but we will go beyond legal compliance where necessary to protect our workers, the surrounding environment and the communities within which we operate. We achieve this by effective implementation and transparent engagement, communication and independently verified reporting arrangements with Group stakeholders.

We provide a fair return to our shareholders by striving for continuous improvement to our technical processes in exploration and production. We facilitate and encourage responsible product design, use, re-use, recycling and disposal of the Company's products. The implementation and maintenance of ethical business practices and sound systems of corporate governance is key to our sustainable business practices.

We aim to ensure a safe working environment with continual improvement of the Company's health and safety performance. Risk management strategies are implemented based on valid data and sound science.

We respect the human rights of our workers, suppliers and host communities by upholding fundamental human rights and respecting cultures, customs and values in dealings with employees and others who are affected by our activities. High priority is given to contributions to the social, economic and institutional development of the communities in which the Company operates.

We believe that mining companies have a particular responsibility to care for the environment and to mitigate the impact of their operations. We strive for continual improvement of the Company's environmental performance. We also contribute to conservation of biodiversity and integrated approaches to land use planning and the ongoing development of mine closure plans.

In order to implement our Safety & Sustainability Policy, we have developed a cross-business and inter-disciplinary Action Plan focused on our priority areas of health and safety, human rights and stakeholder engagement and environmental management. We provide appropriate and high-quality training for employees and opportunities for career development. We support investment in initiatives to support education in the regions where the Group operates both through the widening scope of the Group's operations and with the assistance of the Petropavlovsk Foundation for Social Investment.

Petropavlovsk recognises the use of appropriate procedures developed for handling disputes and grievances with zero tolerance of bribery and corruption and strict compliance with the relevant legislation of the Russian Federation and the United Kingdom.

In summary, Petropavlovsk recognises that a successful business is one that is sustainable and is supported by the communities within which it works. Our approach is to respect the communities that host our operations and to undertake our business in a socially and environmentally responsible manner. By creating a sustainable business, we help to make a successful business.

**Action plan for 2019:**

| **Health and Safety:** | **Stakeholder Engagement:** | **Environment:** |
| --- | --- | --- |
| – Reduce LTIFR rate at each mine<br>– Review and update H&S Policies to ensure safe working at POX Hub and underground | – Improve stakeholder relationships by increasing bilateral communications with the workforce and the community<br>– Align the Grievance procedure with international industry standards | – Harness innovation to further improve the Company's environmental performance |

## Stakeholder Engagement

The Group is committed to establishing and maintaining constructive relationships with all stakeholders to foster sustainable, positive and transparent interaction, and to ensure benefits for everyone from the Group's activities for the term of the operations and beyond.

All persons or groups that are directly or indirectly involved in the operations of the Group are considered to be our stakeholders. New stakeholders are regularly identified and included in the consultation process.

| Stakeholder groups | Engagement mechanisms | Who is responsible within the Company |
|---|---|---|
| **Shareholders, lenders, bondholders** | – AGM<br>– Annual Report<br>– Investor conferences, conference calls, one-to-one meetings<br>– Site visits | – Board<br>– CEO<br>– IR department |
| **Employees** | – Website<br>– Corporate newspaper Pokrovka Plus<br>– Trade union<br>– Meetings and face-to-face communication with management | – Welfare and Community Liaison team<br>– Public relations team<br>– HR Departments<br>– H&S Departments<br>– Operations directors and Chief engineers |
| **Supplies and contractors** | – Direct correspondence<br>– Meetings<br>– Contractual relationships<br>– Production departments<br>– Procurement departments | |
| **Local communities,** potentially or directly affected by Group operations, including Indigenous communities. | – Public hearings<br>– Corporate newspaper Pokrovka Plus<br>– Social and charity activities<br>– Company website<br>– Direct correspondence<br>– Site visits<br>– Grievance mechanisms | – Welfare and Community Liaison team<br>– Public relations team<br>– Petropavlovsk Foundation team |
| **Government and Industry authorities** | – Meetings, round-table conferences<br>– Industry conferences<br>– Direct correspondence<br>– Company website<br>– Circulation of information (brochures, factsheets, leaflets etc). | – Group CEO<br>– Managing directors at operations<br>– Welfare and Community Liaison team<br>– Legal team<br>– GR team |
| **Media** | – Company website<br>– Press releases, conference calls<br>– Site visits<br>– Interviews with top managers and representatives of the Company, press visits to its enterprises<br>– Correspondence (letters and emails) | – Welfare and Community Liaison team<br>– Public relations team |

# Our Workforce

Petropavlovsk is committed to operating as a responsible employer both by promoting the fair treatment of its workforce through equal opportunity, and by the absence of discrimination required under both Russian and UK law. All employees are issued with contracts detailing their working hours, paid annual leave and other guarantees, in line with Russian or UK legislation (as applicable). In Russia, the Group operates in accordance with the Constitution of the Russian Federation, which details the rights and freedoms of citizens.

Shift patterns are organized in such a way as to promote uninterrupted operations, but also to allow employees to perform their duties whilst providing for family commitments. These patterns are usually either 14, 30 or 45 days at the mine with subsequent leave of the same duration. Whilst on duty, employees live on site in comfortable, hotel-style accommodation with access to leisure facilities. In 2018, more than 250 people, including employees, contractors and interns, took part in a variety of sports tournaments.

**Trade Union**
The Trade Union was formed in order to represent and protect social and labour rights and the professional interests of employees and to help enhance the quality of life of Trade Union members and their families. Today, 1,616 employees are members of the trade union, and in a continuation of the Group's historical record, there were no strikes to report during 2018.

The trade union budget of RUB 19.7 million in 2018 was allocated to health treatments for employees and financial assistance for workers (for the purposes of medical treatment and operations, the birth of a child, weddings and anniversaries).

**Competitive Remuneration**
The Group pays its workforce competitive salaries which exceed regional and country averages. The average wage paid to a Petropavlovsk employee working in Russia is 56.40% higher than the Russian national average. The minimum wage paid by the Group is 12.48% higher than the regional minimum wage. Exchange rate dynamics in 2018 increased wages in Roubles but decreased them in Dollars when compared to 2017.

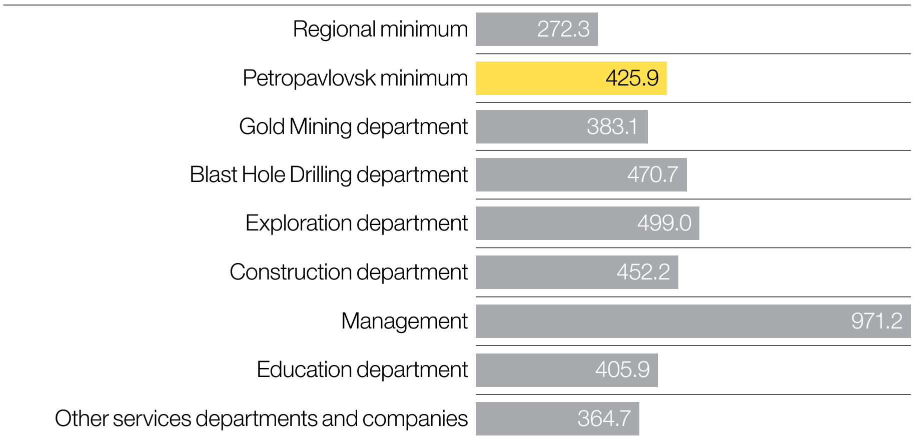
**Case Study**

**Personal Growth Opportunities for Women**
At Petropavlovsk, career and development opportunities of employees are created regardless of gender. Many employees have experienced considerable success here having begun work in an entry level position, and through acquiring experience and education, have been promoted to management.

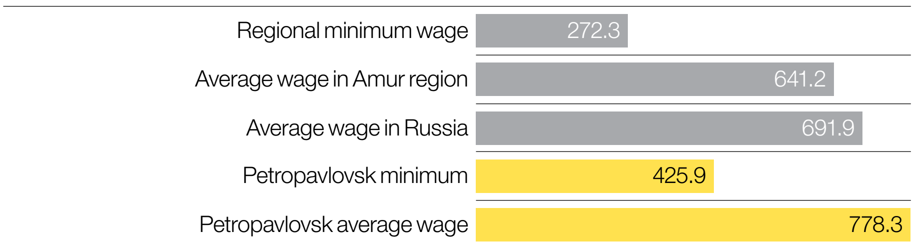
Olga Anokhina is just one example. She is now the head of the Pokrovskiy factory analytical laboratory. In 2018 she was awarded by the Ministry of Natural Resources of the Amur region a diploma for many years of hard work and high professionalism.

"I am a Pokrovskiy Mining College graduate. I started working in the Company as a 3rd category lab technician and was able to become the head of the Pokrovskiy laboratory. And even though we employ more than 130 people, it's not hard to manage a large team. If the task is set correctly, then the team understands what to do. The award I received this year is not only a sign of recognition of my professional qualities, it is a wonderful recognition of the work of our entire laboratory. I really value our team and try to create an inclusive atmosphere to retain them all in the Company."

**Minimum Salaries in 2018 $**




**Petropavlovsk minimum and average wages vs. regional minimum and average**



# **Sustainability** continued

**Social support**
Social benefits, such as pensions, maternity/paternity leave, and employee assistance programs are all provided by Petropavlovsk. The Group also pays for the employee assistance programmes which fund one-off payments in the case of childbirth, marriage, medical treatment, funeral costs for close family, financial difficulties and natural disasters. In 2018, maternity leave was taken by one hundred and eighty female employees, and three male employees used their paternity leave.

**Employee communications**
The exchange of information between the Company and its employees is managed by the internal communications team. For more than 10 years, they have distributed company news updates through multiple channels, mainly the PokrovkaPlus newspaper and provided a channel for discussion. The newspaper is delivered in both digital and print formats to ensure the involvement of employees on site with limited computer access. Professionals with specialist knowledge of the subject give answers to questions received from the communities. These are published within the newspaper itself, which is also circulated to local residents.

**Corruption Controls**
The Group has adopted a Code of Conduct and Business Ethics (the 'Code') to reinforce its zero-tolerance approach to bribery and corruption. The policies and procedures in the Code prevent, combat and reduce bribery and corruption. The Code has been distributed to all employees both in the UK and in Russia.

Both bribery and corruption can have a corrosive effect on Company reputation and must be closely monitored by the Executive Committee. These matters are discussed in regular meetings and the responsibility for ensuring enforcement of any decisions is taken by the Chairman, who makes formal reports on this to the Board.

**Education**
The employees are the key asset of the Group which prioritizes investment to support them and leverage their expertise. It provides them with continuous development and training.

Pokrovskiy Mining College is Petropavlovsk's main centre of education. In 2018 it celebrated its tenth anniversary of successfully preparing qualified graduates to the Group. More than 10,500 people graduated the college during this period.

This private, non-profit, innovative educational institution offers a wide range of in-house training courses:

- Secondary education (training of mid-level specialists, skilled workers and employees);
- Additional education (retraining for a new activity, advanced training); and
- Professional training (over 40 programs).

There are eighteen teachers at the college. Theoretical training and practical experience at the mines are given by engineering and technical personnel from the Group. The teachers actualize training documentation, and take part in the final certification of graduates.

Study, tuition and accommodation is free for students for the duration of training, and those who demonstrate outstanding results receive a stipend.

In 2018, the Pokrovskiy Mining College had two thousand, seven hundred and eighteen graduates. The main contractor was the largest company of the Group, Pokrovskiy.

**Number of PGK graduates**

| | |
|---|---|
| 2018 | 2,718 |
| 2017 | 1,958 |
| 2016 | 1,941 |

The basis of the course for new POX employees was prepared by specialists from the Research and Development Center Hydrometallurgy.

After completing a theoretical course at the Pokrovskiy Mining College, students underwent an internship at the experimental-industrial plant in Blagoveshchensk. There they trained using unique technical equipment: a pilot autoclave unit and an operator's workplace simulator.

As a result, all staff had been fully trained by the time of the POX launch and this made a serious contribution to the successful commissioning of the cornerstone project.

**Case Study**

**WorldSkillsRussia Workers Championship**
In October 2018, students of the Pokrovskiy Mining College took the 1st and 2nd places in the regional stage of the WorldSkillsRussia Workers 'Championship in Laboratory Chemical Analysis.

Egor Eryomchenko, a first-year student, became the winner of the competition and will represent the Amur region at the All-Russian stage of the WorldSkills championship: "To tell you the truth I was really nervous at first as it was my first experience of participating in championships of this level. But I managed to complete all assignments successfully. When it was announced that I had won the first prize, I was overwhelmed with delight and pride for the work done. My success is due to my college teachers"

Worldskills is an international non-profit movement that contributes to the prestige of the working professions and raises standards of professional training in 78 countries of the world.

**Tatiana Bredikhina, Director of the Pokrovskiy Mining College**

"The main success story in the work of the Pokrovskiy mining college is its graduates, who leave with both solid knowledge and work experience. They understand their professional tasks and they are motivated to succeed in the job of their choice and to keep on studying. When I get positive feedback from Petropavlovsk operations about our graduates, I realize that the college has truly achieved the goal set by the Petropavlovsk management team 10 years ago. It has been busy and fruitful ten years for us., and we are eager to keep on sharing our knowledge with new students."

# Our Stakeholders

**The Petropavlovsk Foundation**
Petropavlovsk provides direct support to local communities through the Petropavlovsk Foundation. Established in 2010, the Foundation invests in programs aimed to encourage socio-economic development, improve quality of life for local inhabitants, and maintain a positive socio-cultural environment.

The Foundation's social projects fall under 6 strategic areas:

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

*Key projects in 2018*
In 2018 the Amur region celebrated the 160th anniversary of its foundation. To commemorate this date and to educate people living in the region and beyond about its history, The Petropavlovsk Foundation produced a historical documentary called "Albazinskie skaski". It is dedicated to the heroic past of the Russian Far East. The premiere of the film took place in September 2018. Copies of the film were handed to all schools of the Amur region, and now they are used as teaching aids. The movie is posted on YouTube. By the end of 2018, it had been watched by more than 2,000 people. The project was co-financed by the Russian Presidential Grants Fund.

Petropavlovsk also supported the Amur Autumn annual festival of theatre and cinema. Various festivals with the participation of famous Russian actors took place in the towns and villages where Petropavlovsk employees live. They were bright and memorable events for the people living in these remote areas.

The foundation supported the development of children's football in the Amur region in order to create conditions for local children to succeed in this sport.

*Gleb Kuznetsov, Director of Petropavlovsk Foundation and Member of the Public Chamber of the Russian Federation:*
Petropavlovsk operates in a large region where small settlements are located at a significant distance from each other. People who live there have truly deep and interesting family history. But our common weak spot in Russia is that many of us have little knowledge of our history, of family history, or the history of the region. This knowledge is very important as it gives us roots and allows us to improve our social well-being. Therefore, in the Foundation, along with the traditional charitable activities, we decided to organize a project dedicated to discovering the history of the Amur region. In 2018 we shot a historical documentary. It is now used in history lessons in all Amur schools. And during a few months, more than 2 thousand people watched it. You can do it as well any time you like as we posted it on the YouTube for everyone to watch.

**Engaging with Indigenous Groups**
There are five villages with predominantly Evenk populations in the Amur region. The Albyn mine is located approximately 20km from one of these, the Ivanovskoye village in the northern Seledmzhinsky district, with a population of 374 people. Petropavlovsk considers its residents to be stakeholders and pays special attention to its interactions with them. The village is located in a traditional gold mining area, where alluvial gold has been mined since the 19th century, and local gold mining companies not part of the Group continue to mine alluvial gold in the vicinity of the village.

There is a school and a nursery in the village where the Evenk language is taught. Residents enjoy spending leisure time at a local stadium and at a community centre, which a new local folk dance group have used since 2010. Between 2010 and 2017, Petropavlovsk took part in the rebuilding and improvement of all social and educational facilities in the village. A traditional type of Evenk farming, reindeer husbandry, is conducted in Ivanovskoye by Ulgen and the neighbouring Selitkan community. During its years of operation in the Selemgjinsky district, Petropavlovsk has provided Ivanovskoye with in-kind assistance and social support, mainly through the Petropavlovsk foundation.

**Human Rights**
At Petropavlovsk we respect the human rights of our workers, suppliers and our host communities. Our aim is to implement best practices and to apply the UN Guiding Principles on Business and Human Rights to our activities. The main policies and procedures we have in place in order to address human rights are:

- The Code of Conduct and Business Ethics;
- Review and publication of a revised Modern Slavery Statement annually;
- A Grievance mechanism for our employees and third parties which has been implemented in line with the UN Guiding Principles on Business and Human Rights;
- Continuous engagement with our all our stakeholders; and
- Human resources policies in compliance with the requirements of the Russian Federation.

**Grievance Mechanism**
In line with good international industry practice, a Grievance Procedure has been developed to enable members of the public and other stakeholders to raise complaints or issues concerning Petropavlovsk activities and to be assured that these complaints will receive due consideration and a written response.

The introduction of the procedure was approved by the Board of Directors. It will be implemented throughout 2019.

Complaints can be registered online. High Internet connectivity even in the most remote areas of Amur region make it a convenient way of communication. Information on the Grievance Procedure is made available to local residents and other stakeholders in the Sustainability section Petropavlovsk website. We are aiming to spread this information on news boards in the villages and via local newspapers as well. Different ways of sending complaints will be tested and considered in 2019 to perfect the procedure.

Key performance statistics on the use of the Grievance Procedure, the nature of issues raised, and the responsiveness of Petropavlovsk in resolving issues in a timely manner will be reported in future Sustainability Reports.

**Government Relationship**
In recent years, the Government of the Russian Federation has been actively implementing a policy of development in the Russian Far East. A number of measures have been adopted to support the construction and development of modern production facilities in the region, which will create jobs and increase income from taxation. The measures may be implemented at both the regional and federal government levels.

The Amur region is the second in Russia where a POX plant has been constructed. The POX Hub is considered as an important investment project by regional officials and is supported by them within the Russian legal framework. The government of the Amur region understands the social and economic impact of the project, which will enable it to save jobs and to create new ones, to create a taxable base for years ahead. The governor of the region visited the POX main production facilities throughout 2018 and publicly acknowledged the strategic importance of the POX Hub for the gold-mining industry of the Amur region.

In 2015, the Group received state support for a project located in the remote northern part of the Amur region, the Selemdzhinsky district. The project, which focused on the construction and operation of gold mining and processing plants, was among the six key investment projects in the Russian Far East that received such support.

Within the framework of the project, the government invested in the creation of local energy infrastructure, consisting of a new 220 kV, 175km long transmission line (February-Rudnaya) and a 220 kV substation in the village of Koboldo (Rudnaya). The infrastructure will provide a reliable energy supply to Petropavlovsk mines and increase possible connectivity for the opening of new local production facilities and deposits.

Most of the work has been completed at this stage, with the infrastructure facilities planned to be completed in 2019.

**Case Study**

**Governor's visit to the POX Hub**
The Amur region is the second region in Russia to contain and operating POX Plant. The POX Hub that has been commissioned at Pokrovskiy is considered to be an important investment project by the regional officials and is supported by them within Russian legal framework. The government of the Amur region have grasped the social and economic impact of the project, which will allow jobs to be saved and new ones to be created, establishing a taxable base for years ahead. The governor of the region visited POX main production facilities throughout 2018 and publicly announced the strategic importance of the POX Hub for the gold-mining industry of the Amur region.

"I'm incredibly impressed!" admitted the governor of the Amur region Vasily Orlov, who visited the POX plant in 2018. "The autoclave is of strategic importance for the gold industry in the Amur region. It creates a foundation for decades to come in terms of working with refractory ores. Thanks to this facility the gold mining industry will deliver first class economic results. After the launch of the Pokrovskiy autoclave, the regional budget will receive up to 600 million roubles in taxes annually."

# Our Health & Safety

The health and safety of its workforce is a top priority for Petropavlovsk. The Group is focused on the continual improvement of the Company's health and safety performance to ensure a safe working environment for them. Risk management strategies are being implemented based on valid data and sound science to reduce the number of LTIFRs and accidents.

An ongoing campaign is in progress to go beyond compliance with the regulatory framework and to develop a safety culture within the Group based on behavioural-based safety at Group operations. The Group's objective is to minimise the risk of accidents and of occupational illnesses, and to aim for zero fatalities.

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. Any serious accidents are investigated. Until November 2018, when the Safety, Sustainability & Workforce Committee was constituted health and safety matters were considered and reviewed by the Board, at scheduled meetings. Petropavlovsk also conducts regular on-site inspections to ensure all operations comply with regulations.

The Group aims to incorporate any additional legislative developments into the Group's health and safety standards. It is the Group's obligation and duty to comply with health and safety legislation and all relevant regulations in the regions we operate in. Beyond that, Petropavlovsk strives to pursue and introduce industry best practice, both in Russia and internationally.

The Group is committed to:

- Providing a safe working environment for all employees;
- Ensuring full compliance with the legislation of the Russian Federation;
- Minimising the risk of accidents and occupational illness; and
- Providing high quality, task-specific training.

Group Health and Safety policies were updated in 2018 to improve and update existing documentation in line with business developments, particularly the commissioning of the underground project and the POX Hub. We kept both our employees and stakeholders constantly informed throughout the campaign, seeking feedback aimed at subsequent improvement.

In addition to its other initiatives, Petropavlovsk carries out regular campaigns to raise health and safety awareness, recently focusing on road safety and also slips, trips and falls. The road safety campaign promoted the use of seat belts and maintaining speed limits, whilst the latter campaign was developed in line with widespread practices to avoid injuries occurring as a result of seemingly minor actions. Both campaigns were successful and management has adopted this approach, which encompasses the simultaneous use of educational activities and outreach tools alongside the targeting of individuals.

All employees are provided with task-specific PPE and failure to wear or use the appropriate PPE is a disciplinary offence.

**Audits and Inspections**

A number of government bodies responsible for ensuring compliance with HSE legislation made several visits and conducted audits at the Company's sites throughout 2018. All facets of the operations are scrutinised, from the dormitories to the final production area of the process plants. Health and safety documentation is analysed and employees are interviewed.

The Group need to carry out regular internal audits in the pursue of constant improvement and cultural growth in order to pass these inspections. The appliance of the relevant risk assessment is one of our most valuable managerial tools in this respect.

The results of all such activities are submitted to the Chief Engineer of the Management Company and the most important observations are then presented to the SSW Committee of the Board.

Whenever any safety violation is identified, it is investigated and communicated to the relevant managerial level, either the line manager or operational management. They assess the actual and potential hazards and risks that have occurred, whether in the breach of internal rules and policies or legislative regulation. This enables them to form a final decision on the route forward for both the persons involved and Group strategy overall. As a last resort, the Group has the authority to fine or discipline individuals, including line managers, for any safety breaches.

**Compliance with Russian Health and Safety Legislation**

The Group is committed to full compliance with Russian labour legislation, of which the most significant is the Labour Code of the

**Case Study**

**POX Hub Safety**

The commissioning and further operations at the POX Hub would not be possible without the monitoring equipment – radioisotope level gauges – sources of ionizing radiation installed on autoclaves and self-evaporators.

Before POX, there was no source of radiation used within Petropavlovsk Group. Safety requirements for the use of nuclear isotopes are inferior only to the space industry. Therefore, for successful commissioning, it was necessary to fulfil a number of stringent requirements and conditions. The Group had to obtain a license to operate radiation sources in the POX Hub. Training was organised for employees at the Novosibirsk Institute for Advanced Studies in various programs including:

- To monitor the suitability and placement of radioisotope devices, according to safety requirements;
- To develop radiation and individual dosimetry monitoring programs;
- To organize the physical protection of sources; and
- To install and calibrate the equipment at the sites.

Some of new processes at the POX Hub require special protective clothing to be worn. For example, the staff at the POX Oxygen Station, have wear summer and winter suits with an antistatic thread, which does not allow static electricity to form during wearing. This is due to the safety requirements during the operation of the oxygen station.

Russian Federation and FZ-116 'On Industrial Safety at Hazardous Production Facilities'. In line with the Russian Labour Code, a review of labour protection in the workplace is conducted regularly.

Other rules, standards and regulations include:

- State standards for safety systems at work;
- State rules for sanitary-epidemiological standards;
- Integrated safety rules;
- Rules for installation and safe operation of machinery; and
- Regulations for protection at work.

**H&S Management Systems**
At Petropavlovsk, we continuously review our approach in line with the latest regulations and best practice in H&S. Drills are conducted twice a month at all operations in accordance with plans approved by the Chief Engineer of the site.

Upon joining the Company, training is provided to all employees, who later must undergo refresher courses and take health and safety exams. Employees receive specially tailored training in the event of an accident, incorporating the findings of the respective investigation, as well as targeted training if embarking on a specific assignment.

**Health and Safety at the POX Hub**
The POX Hub has been commissioned and is operating in line with mining industry standards, which outline specific requirements for the safe operation and training of staff in potentially hazardous production facilities. The Department of Occupational Health and Safety has developed technical protocols relating to the safe installation and operation of POX equipment.

Prior to commissioning, technical inspection of pressure vessels, which are registered at Rostekhnadzor (Federal Environmental, Industrial and Nuclear Supervision Service of Russia), was conducted. Employees operating the POX Hub underwent specific training on the safe operation of all relevant equipment and were examined in-house. In addition, managers and key specialists of the POX plant were certified in the Far Eastern Department of Rostekhnadzor for Industrial Safety.

During 2018 the following activities were conducted in the field of occupational safety, industrial and fire safety, as well as healthcare on POX plant facilities.

- Standards for issuing special clothes and footwear;
- Standards for issuing washing and neutralizing agents for POX plant employees have been developed and approved;
- Annual x-ray examination was organized on the territory of POX plant facilities for employees; and
- Medical examination of employees has been organized.

Safety instructions for blue-collar employees and job descriptions for those responsible for vessels working under pressure and lifting equipment have been developed. Employees were trained at Pokrovskiy Mining College under the program "Autoclave oxidative leaching processes and apparatuses for gold-bearing sulphide flotation concentrates". Employees in the professions Slinger, Cradle Worker, Floor Crane Operator, etc. are to be trained quarterly.

A License to operate radiation sources has been obtained. Personnel underwent training on radiation safety. Individual radiation monitoring has been organized and necessary programs and plans approved by regulatory agencies. The Annual report on radiation safety has been turned in.

Work has begun on the organization of the Emergency Rescue Team. Certification of rescuers and formations is planned for Q2 2019. Plans for measures for the localization and control of accidents at hazardous production facilities of Pokrovskiy have been developed and approved. The automatic fire extinguishing system at the Oxygen Station was commissioned.

# Our Environmental Management

Petropavlovsk recognise that activities undertaken during the life cycle of our mines will impact on the environment, so we prioritise measures to mitigate and reduce this impact. The Company has developed the Environmental Management system which is in full compliance with GOST R ISO 14001-2016 (the Russian legislation equivalent to ISO 14001:2015). Data relating to the state of the environment at industrial sites is regularly disclosed to the environmental authorities and local people and the system was certified for use in 2018.

The main objectives of the Group's Environmental Policies are to control operations in accordance with the requirements of this legislation and to raise the level of awareness of all personnel regarding the environmental aspects of the main and auxiliary processes of gold mining. The entire workforce is encouraged to participate in industrial and environmental safety, and resource-saving activities and appropriate incentive measures are implemented to reward compliance.

One of the main ways that the Company has reduced its impact on the environment is by introducing advanced technology, equipment, and materials, and increasing the automation of process control. This controls emissions of harmful substances into the biosphere by stabilising and reducing the volume and toxicity of emissions and the discharge of pollutants and waste while increasing production volumes. Information technology and technical diagnostics are used to maximise the positive effects of this modern equipment.

As well as elaborating an annual plan of measures for environmental protection of its own operations, the company require contractors to apply the same standards and norms in the field of industrial and environmental safety, and occupational health and safety adopted by Petropavlovsk.

The Group continues to implement strict control and a gradual reduction in the use and formation of hazardous chemicals in basic and auxiliary processes and to find ways to reduce the generation of waste.

**Permitting**
In 2018 the Group's EHS compliance with the requirements of GOST R ISO 14001-2016 (ISO 14001:2015) was certified following a scheduled inspection. The Company's licences on handling hazardous waste were re-issued. Also, as the technological process at Pokrovskiy was changed due to the POX Hub operations, new maximum permittable emissions standards were drafted and received the appropriate permits from the authorities.

**Environmental data from 2018**
The state's supervisory bodies found no violations of the Environmental Law in 2018. The results of environmental monitoring and industrial control showed that there was no soil contamination, air pollution, surface or ground waters contamination.

The group has adopted a grading system for environmental incidents, based on their real potential impact. Category 1 incidents are classified as temporary lapses in normal environmental procedures, which once identified, may be remedied with no detrimental impact on the environment.

| Environmental incidents | 2018 | 2017 | 2016 |
|---|---|---|---|
| Category 1 - Minor | 53 | 41 | 102 |
| Category 2 - Moderate | 0 | 0 | 0 |
| Category 3 - Serious | 0 | 0 | 0 |
| Licence violations | 0 | 0 | 0 |
| Environmental fines, RUB | 0 | 0 | 0 |

**Air Quality**
Air quality at each mine is monitored for the maximum permissible levels of pollutant emissions which are agreed with federal authorities (Rosprirodnadzor of Amur region).

The maximum permissible concentrations for all standardized components were not exceeded in 2018. The level of the monitored indicators is comparable with the results of 2017 and vary in minimum values. Changes in the chemical composition of atmospheric air in impact areas were not observed.

In 2018 in order to comply with the requirements of environmental legislation, due to changes in the technological process Pokrovskiy, the documentation for maximum permissible air emissions was drafted and the permits were issued by the Environmental authorities of the Amur region.

### Water Management

Water consumption at the Group's operations is carried out in strict accordance with the usage quotas detailed in the licence terms. The Group utilises water from underground sources and surface water bodies for the purposes of domestic, drinking and industrial water supply. A zero-discharge and a recycled water supply systems are in place within all Group companies which has led to a significant reduction in the consumption of clean natural resources. The quality of surface and ground waters is monitored and the analysis of water samples is recorded in the state register. At the end of each year, a report is prepared and submitted to all of the relevant state bodies.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Water used (total), m3 | 21,217,595 | 21,738,223 | 32,212,228 |
| Water used for drinking and domestic purposes, m3 | 661,000 | 517,488 | 594,419 |
| Raw water used (technical), m3 | 4,551,241 | 4,569,262 | 4,465,662 |
| Recycled water, m3 | 16,008,24 | 16,651,473 | 27,152,148 |
| Water discharged, m3 | 0 | 0 | 0 |

### Recycled water

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Recycled water | 75.4% | 76.6% | 84.3% |

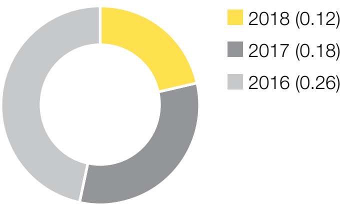
### Energy consumption

Petropavlovsk manages the use of energy at its facilities by using modern mining equipment including CAT 330C electric mining excavators. Optimal control schemes enable rock mass management to prevent multiple movements of the same material. Blasting and crushing is monitored to obtain optimum coarseness for the material sent to the processing plants. The use of grinding technologies and mills with a light rubber lining also contribute to energy saving.

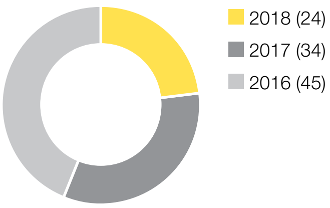
### Consumption of primary energy sources

| | | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Energy Consumption | GJ | 3,002,111 | 3,122,507 | 3,357,161 |
| Electricity | 000 kW/h | 576,554 | 598,816 | 588,205 |
| Diesel | l | 71,724,401 | 71,958,915 | 78 435,164 |
| Kerosene | l | 123,841 | 130,605 | 155,053 |
| Gasoline | l | 702,140 | 582,409 | 421,331 |
| Coal | t | 12,708 | 17,153 | 12,608 |

### Energy consumption per 1t of ore, GJ*




### Energy consumption per 1 t of ore, kWh




* *Energy consumption for 2016 and 2017 doesn't correspond with the last year report as in 2017 the figures reported were per 1000 t of ore.*

## Waste Management

A Waste management programme is agreed with regulatory authorities before being implemented at all Group operations. The data on waste forms part of the overall monitoring information which is supplied to local authorities annually for their review. All of the Group's companies have the license to handle hazardous wastes, draft standards for waste generation and put limits on their disposal. The Group has its own solid waste landfills in place. All employees engaged in hazardous waste handling activities have completed special training and received state Certificates that allow them to implement this type of activity.

In 2018, 7428.4 tons of waste was generated, which is 462.5 tons more than in 2017. Growth in the volume of waste generation is caused by the launch of POX Hub.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Generated, t | 7,428 | 6,966 | 6,586 |
| Reused, t | 2,279 | 2,981 | 2,727 |
| Disposed | 4,907 | 1,896 | 1,599 |

## Cyanide management

Petropavlovsk has a stringent approach to the handling, managing and monitoring of cyanide due to its hazardous potential. All associated risks are identified: cyanide levels in our tailings, air, soil, surface and ground waters are monitored and strictly controlled. All facilities where cyanide is used in the process are in full compliance with Russian legislations, and environmental monitoring results are provided to the authorities regularly. The Company continuously reviews its approach to cyanide management and implements the highest safety levels at all its facilities.

## Rehabilitation

It is the Group's intention to ensure that after decommissioning, the landscape will be restored as far as possible to its original state. All operating mines are subject to an ongoing rehabilitation programme, which is compliant with regulatory requirements. Closure plans are prepared as a part of the initial permitting process and these are updated as required.

### Case Study

**Compensation measures to protect biodiversity: Release of 80,000 hatchling into the Zeya River**

The enterprises of the Group released more than 80 thousand hatchlings into the waters of the Zeya River. It is a compensation for possible biological damage from the Pokrovskiy and Albynskiy mines operations.

New river dwellers were brought from the Amur fish farm in the Khabarovsk Region. They made their long way in special containers that, during transportation, enriched water with oxygen.

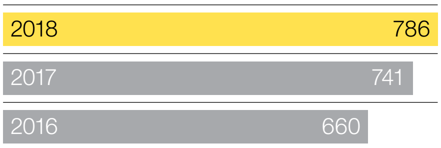
– Our enterprises strictly comply with the requirements of environmental legislation. This year the sum of expenses reached three million rubles. Carp is considered the species, ideal for filling ichthyofauna of local water bodies. Fish feeds mainly on bottom vegetation, and the autumn period for the release of fry is considered the most favourable, - says Deputy General Director of Petropavlovsk Management Company Jury Petrovich Marchenko.

The fish will take two-three years to grow, and its weight will be on average 3-4 kilograms.

# Key Performance Indicators

Our key performance indicators appear throughout this report and introduce the operational and sustainability sections and the CFO statement respectively (pages 35, 69 and 84).

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




### Definition

Total cash cost per ounce ("TCC") is 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 hard rock mines are its key assets, producing 100% of the Group's total gold production.

TCC◆ are calculated by the Group as operating cash costs less co-product revenue. TCC◆ per oz are calculated as Total Cash Costs◆ divided by the ounces of gold sold and are presented on a segmental basis.

Operating cash costs are defined by the Group as operating cash expenses plus refinery and transportation costs, other taxes, mining tax and the amortisation of deferred stripping costs.

The key components of operating cash expenses are wages, electricity, diesel, chemical reagents and consumables. The main 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 is also a variable cost dependent on production volume and the gold price realised. The Russian statutory mining tax rate is 6%. Under the Russian Federal Law 144-FZ dated 23 May 2016, introducing certain amendments to the Russian Tax Code, taxpayers who are participants in the Regional Investment Projects ("RIP") have the right to apply a reduced mining tax rate provided certain conditions are met. The Group's mining entities (JSC Pokrovskiy Rudnik, LLC Malomirskiy Rudnik and LLC Albynskiy Rudnik) met the eligibility criteria and continued applying 0% mining tax rate in 2018.

### 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 2018

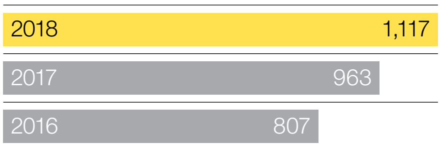
Total Cash Costs◆ for hard rock mines increased from US$741/oz in 2017 to US$786/oz in 2018. The increase in TCC◆ primarily reflects the effect of inflation of certain Rouble denominated costs, higher volumes of stripping and suboptimal organisation of mining works in the first half of 2018. This effect was partially mitigated by higher grades of ore processed at Pioneer and Malomir and higher recoveries achieved at Pioneer, Albyn and Malomir as well as by the effect of Rouble depreciation.

### Going Forward

The Group expects TCC◆ for 2019 to be in the range of c.US$850-950/oz, based on the exchange rate of RUB66 : US$1.

For further information on TCC◆ please refer to the CFO Statement on pages 87 to 95 of this report.

## All-in Sustaining Costs◆ (US$/oz)




### Definition

All in sustaining cash costs ("AISC") include both operating and capital costs required to sustain gold production on an ongoing basis, over and above the direct mining and selling costs shown by TCC◆. AISC◆ is calculated in accordance with guidelines for reporting AISC◆, as published by the World Gold Council in 2013.

### Relevance

AISC◆ allows for a better understanding of the true cost of producing gold once key components such as central admin costs and the cost of sustaining capital and exploration expenditure are taken into account. Management uses this measure to monitor the performance of our assets and their ability to generate positive cash flows.

### Performance in 2018

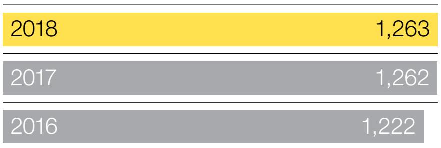
AISC◆ increased from US$963/oz in 2017 to US$1,117/oz in 2018. The increase in AISC◆ reflects the growth in TCC as well as higher sustaining capital expenditures related to the existing mining operations and impairment of non-refractory ore stockpile at Albyn due to suboptimal organization of mining works in the first half of 2018.

### Going Forward

The Group expects AISC◆ for 2019 to be in line with changes in TCC.

For further information on AISC◆ please refer to the CFO Statement on pages 87 to 95 of this report.

## Average Realised Gold Sales Price◆ (US$/oz)




### Definition

The Average Realised Gold Sales Price◆ is the mean price at which the Group sold its gold production throughout the reporting period, including the realised effect of cash flow hedge contracts. The Average Realised Gold Sales Price◆ is calculated by dividing total revenue received from gold sales (including the realised effect of any hedging contracts) by the total quantity of gold sold during 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 and profitability.

### Performance in 2018

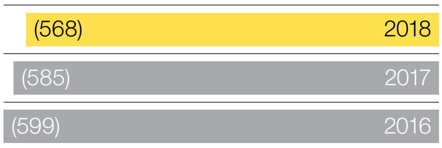
In 2018, the average realised gold price was US$1,263/oz, in line with the 2017 figure of US$1,262/oz and below the average LBMA gold price afternoon fixing of US$1,269/oz. The average realised gold price for 2018 includes a US$(9)/oz effect from hedge arrangements (2017: US$2/oz).

### Going Forward

The Group generates most of its revenue from the sale of gold. The Group's policy is to sell its products at the prevailing market price. The Group constantly monitors the gold price and hedges some portion of production as considered necessary. Forward contracts to sell an aggregate of 200koz of gold at an average price of US$1,252/oz were outstanding as at 31 December 2018. Forward contracts to sell an aggregate of 133koz of gold at an average price of US$1,252/oz are outstanding as at 24 April 2019.

For further details on the components of Group revenue, cash flow and hedge arrangements please refer to the CFO Statement on pages 87 to 95 of this report

## Net Debt◆ (US$m)




### Definition

Net Debt◆ shows how indebted a company is after total debt and any cash (or its equivalent) are netted off against each other. Net Debt◆ is calculated as the sum of current borrowings and non-current borrowings less cash and cash equivalents. Other companies may calculate this measure differently.

### Relevance

Management considers Net Debt◆ a key measure of the Company's leverage and its ability to repay debt as well showing what progress is being made in strengthening the balance sheet.

### Performance in 2018

Net Debt◆ reduced to US$568 million as at 31 December 2018 from US$585 million as at 31 December 2017.

### Going Forward

The Group's Net Debt◆ is expected to reduce with the ramp up of production and increase in free cash flow.

For further information on Net Debt◆ please refer to the CFO Statement on pages 87 to 95 of this report.

# Key Performance Indicators continued

### Underlying EBITDA◆ (US$m)

| | |
|---|---|
| 2018 | 143 |
| 2017 | 197 |
| 2016 | 200 |

**Definition**
EBITDA is a common measure used to assess profitability without the impact of different financing methods, tax, asset depreciation and amortisation of intangibles and items of an exceptional / non-recurring nature, or those that could make comparison of results from prior periods less meaningful.

**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 2018**
In 2018, the Group generated Underlying EBITDA◆ of US$143.0 million, compared with US$196.8 million in 2017. The decrease in physical ounces sold from c.439.8koz in 2017 to c.369.6koz in 2018 resulted in US$36.6 million decrease in the Underlying EBITDA◆. The increase in TCC◆ contributed to a further US$16.4 million decrease in the Underlying EBITDA◆. This effect was partially mitigated by the increase in the average realised gold price◆ from US$1,262/oz in 2017 to US$1,263/oz in 2018 and US$0.6 million profits from the sale of gold concentrate in 2018.

**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 Underlying EBITDA◆ levels.

For further information on Underlying EBITDA◆ please refer to the CFO Statement on pages 87 to 95 of this report.

### Profit For The Period (US$m)

| | |
|---|---|
| 2018 | 26 |
| 2017 | 37 |
| 2016 | 32 |

**Definition**
Profit / (loss) for the period is calculated by deducting operating and net finance expenses, taxation and any relevant share of results of associates 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 2018**
Profit for the period amounted to US$25.9 million in 2018, compared to a profit of US$37.1 million in 2017. While the Underlying EBITDA decreased by US$53.8 million and the Group recognised US$12.2 million impairment of exploration and evaluation assets and US$18.0 million impairment of ore stockpiles, the Group's profit for the period was positively affected by a US$81.6 million post-tax impairment reversals.

**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.

### Basic Earnings Per Share (US$)

| | |
|---|---|
| 2018 | 0.01 |
| 2017 | 0.01 |
| 2016 | 0.01 |

**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 2018 was 3,307,151,712 (31 December 2017: 3,303,768,532).

**Performance in 2018**
Basic profit per share for 2018 was US$0.01 (2017: basic profit per share was US$0.01).

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

For the calculation of basic EPS please refer to the note 11 of the Consolidated Financial Statements on page 185 of this report.

# Chief Financial Officer's Statement

For the year ended 31 December 2018

Note: Figures may not add up due to rounding

**Financial Highlights**

| | | 2018 | 2017 (restated)[c] |
|---|---|---|---|
| Gold produced | '000oz | 422.3 | 439.6 |
| Gold sold | '000oz | 369.6 | 439.8 |
| Group revenue | US$ million | 499.8 | 587.4 |
| Average realised gold price◆ | US$/oz | 1,263 | 1,262 |
| Average LBMA gold price afternoon fixing | US$/oz | 1,269 | 1,257 |
| Total Cash Costs◆ [a] | US$/oz | 786 | 741 |
| All-in Sustaining Costs◆ [b] | US$/oz | 1,117 | 963 |
| All-in Costs◆ [b] | US$/oz | 1,332 | 1,065 |
| Underlying EBITDA◆ | US$ million | 143.0 | 196.8 |
| Operating profit | US$ million | 126.6 | 100.4 |
| Profit before tax | US$ million | 82.4 | 48.9 |
| Profit for the period | US$ million | 25.9 | 37.1 |
| Profit for the period attributable to equity shareholders of Petropavlovsk PLC | US$ million | 24.5 | 37.0 |
| Basic profit per share | US$ | 0.01 | 0.01 |
| Net cash from operating activities | US$ million | 217.2 | 124.0 |

*(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) See note 2 of the Consolidated Financial Statements for details regarding the restatement which resulted in the 2017 deferred tax expense decrease by US$7.3 million and the depreciation expense increase by US$11.6 million.*

| | 31 December 2018 US$ million | 31 December 2017 US$ million |
|---|---|---|
| Cash and cash equivalents | 26.2 | 11.4 |
| Notes [d] | (499.0) | (497.7) |
| Convertible bonds [e] | (95.2) | (91.6) |
| Loans [f] | – | (7.1) |
| Net Debt◆ | (568.0) | (585.1) |

*(d) US$500 million Guaranteed Notes due on 14 November 2022 at amortised cost.*

*(e) US$100 million convertible bonds due on 18 March 2020 at amortised cost.*

*(f) US$4 million principal under Sberbank facility at amortised cost.*

**Revenue**

| | 2018 US$ million | 2017 US$ million |
|---|---|---|
| Revenue from hard rock mines | 470.7 | 556.2 |
| Revenue from other operations | 29.1 | 31.2 |
| | 499.8 | 587.4 |

*◆ Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

Group revenue during the period was US$499.8 million, 15% lower than the US$587.4 million achieved in 2017.

Revenue from hard rock mines during the period was US$470.7 million, 15% lower than the US$556.2 million achieved in 2017. Gold remains the key commodity produced and sold by the Group, comprising 93% of total revenue generated in 2018. The physical volume of gold sold from hard rock mines decreased by 16% from 439,834oz in 2017 to 369,611oz in 2018. The average realised gold price◆ slightly increased from US$1,262/oz in 2017 to US$1,263/oz in 2018. The average realised gold price◆ includes a US$(9)/oz effect from hedge arrangements (2017: US$2/oz).

The Group recognised a further US$3.2 million revenue from sales of refractory ore concentrate produced at the Malomir flotation plant (2017: nil).

Hard rock mines sold 54,746oz of silver in 2018 at an average price of US$15/oz, compared to 65,503oz in 2017 at an average price of US$17/oz.

Revenue generated as a result of third-party work by the Group's in-house service companies was US$29.1 million in 2018, a US$2.1 million decrease compared to US$31.2 million in 2017. This revenue is substantially attributable to sales generated by the 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$25.1 million in 2018 compared to US$29.0 million in 2017.

### 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 200,000oz of gold matured during 2018 and resulted in a US$(3.4) million net cash settlement by the Group (2017: US$0.8 million cash contribution to revenue from forward contracts to sell an aggregate of 212,501oz of gold).

The Group constantly monitors the gold price and hedges some portion of production as considered appropriate. Forward contracts to sell an aggregate of 200Koz of gold at an average price of US$1,252/oz were outstanding as at 31 December 2018. Forward contracts to sell an aggregate of 133Koz of gold at an average price of US$1,252/oz are outstanding as at 24 April 2019.

**Underlying EBITDA◆ and analysis of operating costs**

| | 2018 US$ million | 2017 (restated)[b] US$ million |
|---|---|---|
| Profit for the period | 25.9 | 37.1 |
| Add/(less): | | |
| Investment income | (3.8) | (0.8) |
| Interest expense | 29.5 | 25.9 |
| Other finance gains | (13.9) | (2.2) |
| Other finance losses | 32.4 | 28.5 |
| Foreign exchange (gains)/losses | (8.5) | 0.7 |
| Accrual for additional mining tax[a] | – | 19.9 |
| Taxation | 56.5 | 11.8 |
| Depreciation | 102.2 | 104.8 |
| Impairment of exploration and evaluation assets | 12.2 | – |
| Impairment/(reversal of impairment) of ore stockpiles | 18.0 | (4.7) |
| Impairment of gold in circuit | 2.1 | 3.9 |
| Impairment of non–trading loans | – | 0.6 |
| Reversal of impairment of mining assets | (101.7) | – |
| Share of results of associates[c] | (8.1) | (28.7) |
| Underlying EBITDA◆ | 143.0 | 196.8 |

*(a) Amounts of mining tax for the six-month period to 31 December 2016, interest and penalties paid by the Group in 2017 following unfavourable court decisions.*

*(b) See note 2 of the Consolidated Financial Statements for details regarding the restatement.*

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

◆ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

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

| | 2018 US$ million | 2017 US$ million |
|---|---|---|
| Pioneer | 63.1 | 75.5 |
| Pokrovskiy | (0.5) | 0.8 |
| Malomir | 37.7 | 22.1 |
| Albyn | 76.6 | 130.7 |
| Total Hard rock mines | 177.0 | 229.1 |
| Corporate and other | (34.0) | (32.3) |
| Underlying EBITDA◆ | 143.0 | 196.8 |

**Hard rock mines**
During this period, the hard rock mines generated Underlying EBITDA◆ of US$177.0 million compared to US$229.1 million Underlying EBITDA◆ in 2017.

Total Cash Costs◆ for hard rock mines increased from US$741/oz in 2017 to US$786/oz in 2018. The increase in TCC◆ primarily reflects the effect of inflation of certain Rouble denominated costs, higher volumes of stripping and suboptimal organisation of mining works in the first half of 2018. This effect was partially mitigated by higher grades of ore processed at Pioneer and Malomir and higher recoveries achieved at Pioneer, Albyn and Malomir as well as by the effect of Rouble depreciation. The decrease in physical ounces sold from c.439,834oz in 2017 to c.369,611oz in 2018 resulted in US$36.6 million decrease in the Underlying EBITDA◆. The increase in TCC◆ contributed to a further US$16.4 million decrease in the Underlying EBITDA◆. This effect was partially mitigated by the increase in the average realised gold price◆ from US$1,262/oz in 2017 to US$1,263/oz in 2018 and US$0.6 million profits from the sale of gold concentrate in 2018.

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 2017 there was ongoing inflation of certain Rouble denominated costs, in particular, electricity costs increased by 3% in Rouble terms (decreased by 4% in US Dollar terms) and the cost of diesel increased by 26% in Rouble terms (increased by 17% in US Dollar terms). The Rouble depreciated against the US Dollar by 7% in 2018 compared to 2017, with the average exchange rate for the period of 62.68 Roubles per US Dollar in 2018 compared to 58.32 Roubles per US Dollar in 2017, somewhat mitigating the effect of Rouble denominated costs inflation.

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

The Russian statutory mining tax rate is 6%. Under the Russian Federal Law 144-FZ dated 23 May 2016 that introduced certain amendments to the Russian Tax Code, taxpayers who are participants in Regional Investment Projects ("RIP") have the right to apply the reduced mining tax rate provided certain conditions are met. The Group's mining entities (JSC Pokrovskiy Rudnik, LLC Malomirskiy Rudnik and LLC Albynskiy Rudnik) met eligibility criteria and continued applying 0% mining tax rate in 2018.

The Group initially applied a reduced rate of mining tax from 1 July 2016 in its capacity of a RIP participant. The position of the Russian tax authorities was that the effective date for the aforementioned concession should be 1 January 2017 and, accordingly, the Group should be liable for the mining tax of for the six month period to 31 December 2016. Following unfavourable court decisions, the Group has settled an aggregate equivalent of US$19.9 million of mining tax for the six month period to 31 December 2016, interest and penalties, which amounts were recognised as an expense in 2017.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ million | % | US$ million | % |
| Staff cost | 67.3 | 22 | 72.1 | 23 |
| Materials | 93.2 | 31 | 107.1 | 34 |
| Fuel | 45.5 | 15 | 43.8 | 14 |
| Electricity | 26.5 | 9 | 30.1 | 10 |
| Other external services | 46.8 | 15 | 36.2 | 12 |
| Other operating expenses | 23.4 | 8 | 24.1 | 7 |
| | 302.7 | 100 | 313.4 | 100 |
| Movement in ore stockpiles, gold in circuit, bullion in process, limestone and flotation concentrate attributable to gold production[a] | (55.6) | | (19.2) | |
| Total operating cash expenses | 247.1 | | 294.2 | |

*(a) Excluding deferred stripping*

◆ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

Strategic report
Governance
Financial statements

For the year ended 31 December 2018

| | Hard rock mines | | | | 2018 | 2017 |
|---|---|---|---|---|---|---|
| | Pioneer US$ million | Pokrovskiy US$ million | Malomir US$ million | Albyn US$ million | Total US$ million | Total US$ million |
| Revenue | | | | | | |
| Gold | 171.0 | 8.2 | 98.3 | 189.1 | 466.7 | 555.1 |
| Silver | 0.6 | 0.0 | 0.1 | 0.2 | 0.8 | 1.1 |
| Flotation concentrate | – | – | 3.2 | – | 3.2 | – |
| | 171.6 | 8.2 | 101.6 | 189.3 | 470.7 | 556.2 |
| Expenses | | | | | | |
| Operating cash expenses | 105.3 | 8.6 | 51.2 | 82.1 | 247.1 | 294.2 |
| Refinery and transportation | 0.2 | 0.0 | 0.1 | 0.2 | 0.6 | 0.8 |
| Other taxes | 2.0 | 0.1 | 2.0 | 2.1 | 6.2 | 5.9 |
| Accrual of additional mining tax [(a)] | – | – | – | – | – | 19.9 |
| Deferred stripping costs | 0.9 | – | 10.6 | 28.2 | 39.8 | 26.2 |
| Depreciation | 37.0 | 0.7 | 22.7 | 41.4 | 101.8 | 104.6 |
| Reversal of impairment of mining assets | – | – | (83.0) | – | (83.0) | – |
| Impairment of exploration and evaluation assets | – | – | 12.2 | – | 12.2 | – |
| Impairment/(reversal of impairment) of ore stockpiles | – | – | 0.3 | 17.7 | 18.0 | (4.7) |
| Impairment of gold in circuit | 1.4 | – | 0.5 | 0.2 | 2.1 | 3.9 |
| Operating expenses | 146.9 | 9.4 | 16.7 | 172.0 | 344.9 | 450.7 |
| Result of precious metals operations | 24.8 | (1.2) | 84.9 | 17.3 | 125.8 | 105.5 |
| Add/(less): | | | | | | |
| Accrual of additional mining tax [(a)] | – | – | – | – | – | 19.9 |
| Depreciation | 37.0 | 0.7 | 22.7 | 41.4 | 101.8 | 104.6 |
| Reversal of impairment of mining assets | – | – | (83.0) | – | (83.0) | – |
| Impairment of exploration and evaluation assets | – | – | 12.2 | – | 12.2 | – |
| Impairment/(reversal of impairment)/ of ore stockpiles | – | – | 0.3 | 17.7 | 18.0 | (4.7) |
| Impairment of gold in circuit | 1.4 | – | 0.5 | 0.2 | 2.1 | 3.9 |
| Segment EBITDA◆ | 63.1 | (0.5) | 37.7 | 76.6 | 177.0 | 229.1 |
| | | | | | | |
| Physical volume of gold sold, oz | 135,001 | 6,442 | 77,448 | 150,720 | 369,611 | 439,834 |
| Cash costs | | | | | | |
| Operating cash expenses | 105.3 | 8.6 | 51.2 | 82.1 | 247.1 | 294.2 |
| Refinery and transportation | 0.2 | 0.0 | 0.1 | 0.2 | 0.6 | 0.8 |
| Other taxes | 2.0 | 0.1 | 2.0 | 2.1 | 6.2 | 5.9 |
| Deferred stripping costs | 0.9 | – | 10.6 | 28.2 | 39.8 | 26.2 |
| Operating cash costs | 108.5 | 8.7 | 63.9 | 112.7 | 293.7 | 327.1 |
| Deduct: co-product revenue | (0.6) | (0.0) | (0.1) | (0.2) | (0.8) | (1.1) |
| Deduct: cost of flotation concentrate | – | – | (2.6) | – | (2.6) | – |
| Total Cash Costs◆ | 107.9 | 8.6 | 61.3 | 112.5 | 290.3 | 326.0 |
| | | | | | | |
| TCC◆, US$/oz | 799 | 1,341 | 791 | 747 | 786 | 741 |

*(a) Amounts of mining tax for the six-month period to 31 December 2016, interest and penalties paid by the Group in 2017 following unfavourable court decisions.*

◆ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

### All-in Sustaining Costs◆ and All-in Costs◆

AISC◆ increased from US$963/oz in 2017 to US$1,117/oz in 2018. The increase in AISC◆ reflects the growth in TCC as well as higher sustaining capital expenditures related to the existing mining operations and impairment of non-refractory ore stockpile at Albyn due to suboptimal organization of mining works in the first half of 2018.

AIC◆ increased from US$1,065/oz in 2017 to US$1,332/oz in 2018, primarily reflecting the increase in AISC◆ explained above and Capital Expenditure◆ in relation to the POX and Malomir flotation plant projects.

| | Hard rock mines | | | | | |
|---|---|---|---|---|---|---|
| | Pioneer US$ million | Pokrovskiy US$ million | Malomir US$ million | Albyn US$ million | 2018 Total US$ million | 2017 Total US$ million |
| Physical volume of gold sold, oz | 135,001 | 6,442 | 77,448 | 150,720 | 369,611 | 439,834 |
| Total Cash Costs◆ | 107.9 | 8.6 | 61.3 | 112.5 | 290.3 | 326.0 |
| TCC◆, US$/oz | 799 | 1,341 | 791 | 747 | 786 | 741 |
| Impairment/(reversal of impairment) of ore stockpiles | – | – | 0.3 | 17.7 | 18.0 | (2.5) |
| Impairment of gold in circuit | 1.4 | – | 0.5 | 0.2 | 2.1 | 3.9 |
| Adjusted operating costs | 109.3 | 8.7 | 62.1 | 130.4 | 310.5 | 327.4 |
| Central administration expenses | 14.3 | 0.7 | 8.2 | 16.0 | 39.2 | 39.9 |
| Capitalised stripping at end of the period | 22.9 | – | 11.5 | 12.6 | 47.0 | 39.8 |
| Capitalised stripping at beginning of the period | (0.9) | – | (10.6) | (28.2) | (39.8) | (26.2) |
| Close down and site restoration | 0.2 | – | 0.6 | 0.5 | 1.2 | 1.5 |
| Sustaining exploration expenditures | 8.9 | – | 5.5 | 4.1 | 18.5 | 16.1 |
| Sustaining Capital Expenditure◆ | 20.0 | – | 4.6 | 11.5 | 36.1 | 24.9 |
| All-in Sustaining Costs◆ | 174.7 | 9.3 | 81.9 | 146.8 | 412.7 | 423.5 |
| All-in Sustaining Costs◆, US$/oz | 1,294 | 1,449 | 1,058 | 974 | 1,117 | 963 |
| Exploration expenditure◆ | 1.1 | – | 1.1 | 1.0 | 3.1 | 5.8 |
| Capital Expenditure◆ | 22.7 | – | 53.9 | – | 76.7 | 41.2 |
| Reversal of impairment of ore stockpiles [(a)] | – | – | – | – | – | (2.2) |
| All-in Costs◆ | 198.5 | 9.3 | 136.9 | 147.8 | 492.5 | 468.3 |
| All-in Costs◆, US$/oz | 1,470 | 1,449 | 1,768 | 980 | 1,332 | 1,065 |

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

### Corporate and other

Corporate and other operations contributed US$(34.0) million to Underlying EBITDA◆ in 2018 compared to US$(32.3) million in 2017. Corporate and other operations primarily include central administration function, the results of in-house service companies and related charges, and the Group's share of results of its associate IRC.

The Group has corporate offices in London, Moscow and Blagoveshchensk, which together represent the central administration function. Central administration expenses decreased by US$0.7 million from US$39.9 million in 2017 to US$39.2 million in 2018.

The Group recognised US$15.5 million profit in relation to its associate IRC, including US$28.1 million effect from partial reversal of impairment at K&S mine and US$(5.7) million impairment of investment in IRC (2017: US$35.2 million share of profit generated by IRC, including US$40.3 million effect from partial reversal of impairment at K&S mine). IRC contributed US$7.4 million to the Group's Underlying EBITDA◆ in 2018.

### Impairment review

The Group undertook a review of impairment indicators and impairment reversal indicators of the tangible assets attributable to its gold mining projects and supporting in-house service companies. Detailed calculations of recoverable amounts, which are value-in-use calculations based on discounted cash flows, were prepared which concluded no impairment was required as at 31 December 2018 and 2017.

Having considered the excess of estimated recoverable amounts over the carrying values of the associated assets on the balance sheet as at 31 December 2018 and taking into consideration removed uncertainty connected with the timing of the final construction and performance of the POX Hub, the Directors concluded on the following:

- A reversal of impairment previously recorded against the carrying value of the assets that are part of the Malomir CGU would be appropriate. Accordingly, a post-tax impairment reversal of US$66.4 million (being US$83.0 million gross impairment reversal net of associated deferred tax liabilities) has been recorded against the associated assets within property, plant and equipment.
  The aforementioned impairment reversal takes into consideration the effect of

◆ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

depreciation attributable to relevant mining assets and intra-group transfers of previously impaired assets to Malomir.

– A further reversal of impairment previously recorded against the carrying value of the assets of the supporting in-house service companies would be appropriate to the extent of the headroom available at Malomir and Albyn CGUs and relevant carrying values allocated to these CGUs. Accordingly, a post-tax impairment reversal of US$15.2 million (being US$18.7 million gross impairment reversal net of associated deferred tax liabilities) has been recorded against the associated assets within property, plant and equipment. The aforementioned impairment reversal takes into consideration the effect of depreciation attributable to relevant assets and intra-group transfers of previously impaired assets.

The key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out below:

| | 2018 | 2017 |
|---|---|---|
| Long-term real gold price | US$1,300/oz | US$1,300/oz |
| Discount rate (a) | 8.5% | 8.0% |
| RUB : US$ exchange rate | RUB67 : US$1 | RUB60 : US$1 |

*(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 12.5% (2017: 11.6%)*

*Impairment of exploration and evaluation assets*

The Group performed a review of its exploration and evaluation assets and concluded to suspend exploration at the Flanks of Malomir and surrender relevant licenses. An aggregate impairment charge of US$12.2 million was recorded against associated exploration and evaluation assets.

As at 31 December 2018, all exploration and evaluation assets on the balance sheet related to the areas adjacent to the existing mines with ongoing drilling and technical studies being performed.

**Interest income and expense**

| | 2018 US$ million | 2017 US$ million |
|---|---|---|
| Investment income | 3.8 | 0.8 |

The Group recognised US$2.7 million interest income on loans granted to IRC and US$1.1 million interest income on cash deposits with banks.

| | 2018 US$ million | 2017 US$ million |
|---|---|---|
| Interest expense | 62.8 | 60.2 |
| Interest capitalised | (33.7) | (34.6) |
| Other | 0.4 | 0.3 |
| | 29.5 | 25.9 |

Interest expense for the period comprised US$41.9 million of effective interest on the Notes, US$12.6 million of effective interest on the Convertible Bonds, US$1.1 million of effective interest on bank facilities and US$7.2 million of interest on prepayments on gold sale agreements (2017: US$5.3 million of effective interest on the Notes, US$12.2 million of effective interest on the Convertible Bonds and US$42.7 million of effective interest on bank facilities).

As the Group continued with active construction of the POX Hub and flotation at Malomir, these projects met eligibility criteria for borrowing costs capitalisation under IAS 23 "Borrowing Costs". US$33.7 million of interest expense was capitalised within property, plant and equipment (2017: US$34.6 million interest capitalised in relation to the POX Hub, Malomir flotation and underground projects at Pioneer and Malomir). With the POX Hub having now achieved commercial production, interest captialisation will cease, resulting in an increased interest expense from 2019 onwards.

**Other finance gains and losses**

Net other finance losses for the period totalled US$(18.4) million compared to US$(26.3) million of net other finance losses in 2017. Key elements of other finance losses this period include:

– US$(25.5) million losses recognised in relation to the ICBC guarantee contract to reflect the expected credit losses associated with the ICBC guarantee arrangement;

– US$(3.7) million result of re-measurement of receivable from IRC under ICBC guarantee arrangements to fair value (net of US$4.0 million contractual guarantee fee charges);

– US$(2.4) million lifetime expected credit losses recognised on origination of loans granted to IRC and US$(0.8) million further impairment charges in relation to those loans;

– US$11.7 million gain from re-measurement of the conversion option of the Convertible Bonds to fair value and US$1.9 million gain from re-measurement of the issued the Call Option over the Company's shares to fair value.

## Taxation

| | 2018 US$ million | 2017 (restated) US$ million |
|---|---|---|
| Tax charge | 56.5 | 11.8 |

The Group is subject to corporation tax under the UK, Russia and Cyprus tax legislation. The statutory tax rate for 2018 was 19.0% in the UK and 20% in Russia. Under the Russian Federal Law 144-FZ dated 23 May 2016 taxpayers who are participants in Regional Investment Projects ("RIP") have the right to apply the reduced corporation tax rate over the period until 2027, subject to eligibility criteria. In 2018 and 2017, LLC Albynskiy Rudnik has received tax relief as a RIP participant and was entitled to the reduced statutory corporation tax rate of 17%.

The tax charge for the period arises primarily related to the Group's gold mining operations and is represented by a current tax charge of US$19.9 million (2017: US$24.4 million) and a deferred tax charge, which is a non-cash item, of US$36.6 million (2017: deferred tax credit of US$12.6 million). Included in the deferred tax charge in 2018 is a US$30.6 million charge (2017: US$8.6 million credit) 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 Roubles, 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 which were partially offset by refunds of excessive advance payments made in prior periods and giving a net of US$5.0 million in Russia (2017: corporation tax payments in aggregate of US$31.1 million in Russia).

## Earnings per share

| | 2018 | 2017 (restated) |
|---|---|---|
| Profit for the period attributable to equity holders of Petropavlovsk PLC | US$24.5 million | US$37.0 million |
| Weighted average number of Ordinary Shares | 3,305,069,755 | 3,303,768,532 |
| Basic profit per ordinary share | US$0.01 | US$0.01 |

Basic profit per share for 2018 was US$0.01 (2017: basic profit per share was US$0.01). The total number of Ordinary Shares in issue as at 31 December 2018 was 3,307,151,712 (31 December 2017: 3,303,768,532).

## Financial position and cash flows

| | 31 December 2018 US$ million | 31 December 2017 US$ million |
|---|---|---|
| Cash and cash equivalents | 26.2 | 11.4 |
| Notes [(a)] | (499.0) | (497.7) |
| Convertible bonds [(b)] | (95.2) | (91.6) |
| Bank loans [(c)] | – | (7.1) |
| Net Debt◆ | (568.0) | (585.1) |

*(a) US$500 million Guaranteed Notes due on 14 November 2022 at amortised cost.*

*(b) US$100 million convertible bonds due on 18 March 2020 at amortised cost.*

*(c) US$4 million principal under Sberbank facility at amortised cost.*

| | 2018 US$ million | 2017 US$ million |
|---|---|---|
| Net cash from operating activities | 217.2 | 124.0 |
| Net cash used in investing activities [(d)] | (186.5) | (87.0) |
| Net cash used in financing activities | (13.0) | (38.6) |

*(d) Including US$134.4 million Capital Expenditure◆ (2017: US$88.1 million) and US$56.75 million loans advanced to IRC (2017: US$nil).*

◆ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

For the year ended 31 December 2018

**Key movements in cash and Net Debt◆**

| | Cash US$ million | Debt US$ million | Net Debt◆ US$ million |
|---|---|---|---|
| As at 1 January 2018 | 11.4 | (596.5) | (585.1) |
| Net cash generated by operating activities before working capital changes | 122.6 | – | |
| Increase in working capital [e] | 160.3 | – | |
| Income tax paid | (5.0) | – | |
| Capital Expenditure◆ | (134.4) | – | |
| Amounts repaid under bank loans | (4.0) | 4.0 | |
| Interest accrued | – | (55.5) | |
| Interest paid | (60.6) [f] | 53.8 | |
| Transaction costs in connection with bank loans | (6.4) | – | |
| Transaction costs in connection with notes | (2.6) | – | |
| Loans granted [g] | (57.0) | – | |
| Interest received | 3.7 | – | |
| Other | (1.8) | – | |
| As at 31 December 2018 | 26.2 | (594.2) | (568.0) |

*(e) Including an aggregate of US$163.8 million advance payments received from Gazprombank and Sberbank outstanding as at 31 December 2018. Advance payments are to be settled against physical delivery of gold produced by the Group in regular intervals over the period of up to twenty-four months from the reporting date based on the sales price prevailing at delivery that is determined with reference to LBMA fixing.*

*(f) Including US$6.7 million interest paid in relation to advance payments from Gazprombank and Sberbank.*

*(g) Including loans to IRC in the equivalent of US$56.75 million.*

**Capital Expenditure◆**

The Group invested an aggregate of US$134.4 million in 2018 compared to US$88.1 million in 2017. The key areas of focus in 2018 were on the POX Hub project, for which active development continued ahead of scheduled commissioning in the end of 2018, exploration and development to support the underground mining at Pioneer and Malomir, expansion of tailings dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations.
The Group capitalised US$33.7 million of interest expense incurred in relation to the Group's debt into the cost of the POX Hub and Malomir flotation (2017: US$34.6 million into the cost of the POX Hub, Malomir flotation and underground development at Pioneer and Malomir).

| | Exploration expenditure US$ million | Development expenditure and other CAPEX◆ US$ million | Total CAPEX◆ US$ million |
|---|---|---|---|
| POX [a] | – | 61.5 | 61.5 |
| Pokrovskiy and Pioneer [b] | 10.0 | 19.1 | 29.1 |
| Malomir [c, d] | 5.5 | 19.3 | 24.8 |
| Albyn | 5.0 | 10.5 | 15.5 |
| Other | 1.1 | – | 1.1 |
| Upgrade of in-house service companies | – | 2.4 | 2.4 |
| | 21.6 | 112.8 | 134.4 |

*(a) Including US$61.5 million of development expenditure in relation to the POX Hub which is considered to be non-sustaining Capital Expenditure◆ for the purposes of calculating AISC◆ and AIC◆.*

*(b) Including US$8.1 million of expenditure in relation to the underground mining project at Pioneer to be sustaining Capital Expenditure◆ for the purposes of calculating AISC◆ and AIC◆.*

*(c) Including US$6.1 million of expenditure in relation to the underground mining project at Malomir to be sustaining Capital Expenditure◆ for the purposes of calculating AISC◆ and AIC◆.*

*(d) Including US$15.2 million of expenditure in relation to Malomir flotation (including tailing dams), which is considered to be non-sustaining Capital Expenditure◆ for the purposes of calculating AISC◆ and AIC◆.*

*◆ Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

## Foreign currency exchange differences

The Group's principal subsidiaries have a US Dollar functional currency. Foreign exchange differences arise on the 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 2018 | 31 December 2017 |
|---|---|---|
| GB Pounds Sterling (GBP : US$) | 0.78 | 0.74 |
| Russian Rouble (RUB : US$) | 69.47 | 57.60 |

The Rouble depreciated by 21% against the US Dollar during 2018, from RUB57.60 : US$1 as at 31 December 2017 to RUB69.47 : US$1 as at 31 December 2018. The average year-on-year depreciation of the Rouble against the US Dollar was approximately 7%, with the average exchange rate for 2018 being RUB62.68 : US$1 compared to RUB58.32 : US$1 for 2017. The Group recognised foreign exchange gains of US$8.5 million in 2018 (2017: losses of US$0.7 million) arising primarily on Rouble denominated net monetary assets.

## 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 the 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 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, advances received from customers under prepayment arrangements and external debt.

The Group performed an assessment of the forecast cash flows for the period of 12 months from the date of approval of the 2018 Annual Report and Accounts. As at 31 December 2018, the Group had sufficient liquidity headroom. The Group is also satisfied that it has sufficient headroom under a base case scenario for the period to May 2020. The Group has also performed projections under a layered stressed case that is based on a gold price, which is approximately 10% to 14% lower than the average of the market consensus forecasts, non-refractory gold production approximately 5% lower than projected, and Russian Rouble : US Dollar exchange rate that is approximately 8-9% stronger than the average of the market consensus forecasts. This layered stressed case indicates that mitigating actions will be required to be taken in order to ensure sufficient liquidity for the relevant period to May 2020. This includes sufficient liquidity for the repayment, if necessary, of the Company's US$100 million 9% Convertible Bonds, due in March 2020. The mitigating actions include items within the control of the management, such as cost cutting, reduction of capital and operating expenditure, the deferral of prepayment settlements as well as working capital management.

As at 31 December 2018, the Group has guaranteed the outstanding amounts IRC owed to ICBC. The outstanding loan principal was US$169 million as at 31 December 2018. On 19 March 2019, the ICBC Facility was fully refinanced by the loans from Gazprombank. The Group has provided a guarantee in respect of IRC's new $240 million facility, of which approximately $233 million has been drawn down to date. The Gazprombank Facility is subject to an initial $160 million guaranteed by the Group. 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 projections demonstrate that IRC expects to have sufficient working capital liquidity over the next 12 months and expects to meet its obligations under the Gazprombank Facility. If a missed repayment under debt or guarantee obligations occurs, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

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 2018 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing consolidated financial statements.

## 2019 Outlook

The Group is currently aiming to achieve 2018 production guidance in the range of 450 – 500 koz. The Group's operating cash expenses are substantially Rouble denominated. The Group expects its TCC◆ in 2019 to be in the range of c.US$850-950/oz at current exchange rates.

**Alexey Dubynin**
Chief Financial Officer

24 April 2019

The Strategic Report was approved by the Board on 24 April 2019 and signed on its behalf by:

**Sir Roderic Lyne**
Non-Executive Chairman

# Governance

# Introduction from the Chairman

## Building on a firm foundation

### Dear Shareholder

On behalf of the Board I am introducing Petropavlovsk PLC's annual Corporate Governance Report for the financial year ended 31 December 2018.

**Board changes and our commitment to our shareholders**
At the Company's last Annual General Meeting on 29 June 2018 shareholders voted to change the composition of the Board of Directors. As a result, I became Chairman; Dr Pavel Maslovskiy returned as a Director and Chief Executive Officer; and Mr Robert Jenkins returned as an Independent Non-Executive Director and became Chairman of the Audit Committee. I had previously served on the Board up to 2016; Dr Maslovskiy and Mr Jenkins up to 2017.

Upon our election, the three Directors committed ourselves to restore stability and momentum to Petropavlovsk. We told shareholders that our immediate focus would be on three critical tasks:

(i) Taking the Pressure Oxidation ("POX") project towards commissioning and production;

(ii) Working towards a resolution of the IRC loan guarantee; and

(iii) Rebuilding the Board and the senior management team.

We have achieved all three of these objectives. The Pressure Oxidation process produced its first doré bar in December and two autoclaves have been commissioned. An agreement to restructure the IRC loan guarantee was approved by shareholders in March 2019. Further details on POX and IRC are contained in the Strategic Report. The Board has been reconstituted.

As Chairman, I have sought to rebuild and strengthen the Board; to ensure that it is fully compliant through the appointment of additional independent non-executive Directors; and to commit Petropavlovsk to the highest standards of corporate governance.

I am pleased to report that, following an extensive search, we have appointed three additional Independent Directors whose varied experience and diverse skills are making a vital contribution to our work. Messrs James W Cameron Jr and Damien Hackett were appointed as Independent Non-Executive Directors of the Company on 15 October 2018. Mr Harry Kenyon-Slaney was subsequently appointed as an independent Non-Executive Director of the Company on 7 November 2018. More detail on the appointment process, led by the Nominations Committee with the assistance of an experienced external search firm, can be found on page 110.

In addition to the Independent Directors, Mr Bektas Mukazhanov returned to the Board on 27 July 2018 as the nominee of our major shareholder, Fincraft Holdings Ltd ("Fincraft"). The Company has entered into a Relationship Agreement with Fincraft and Mr Kenges Rakishev, the beneficial owner of Fincraft. Although this is not a mandatory requirement the Board considered that it was appropriate to have a formal agreement in place which governs the rights of Fincraft and Mr Rakishev in respect of the Company whilst ensuring the Board's independence.

Following the above appointments, the reconstituted Board has an Independent Non-Executive Chairman, four Independent Non-Executive Directors, one Executive Director and one nominee Director. I am also pleased to announce the appointment of Mr Harry Kenyon-Slaney as the Senior Independent Director with effect from 23 April 2019.

Dr Pavel Maslovskiy's return as CEO has reinvigorated the senior executive team and restored authoritative leadership throughout the Group. It has led to a significant improvement in operational performance during the second half of 2018 and to the successful commissioning of POX. Membership of the Executive Committee which manages the Group on a day-to-day basis, chaired by Dr Maslovskiy, is detailed pages 100 to 101.

**Workforce Engagement**
A new Safety, Sustainability and Workforce Committee (SS&W Committee) was formed in November 2018, chaired by Harry Kenyon-Slaney, who in this capacity introduces the Sustainability Report on page 72. This new Committee reflects the Board's commitment to ensuring the health and safety of our employees, sustainability of the environment and engagement with our workforce and local community. The Board visited the Group's operations in early April 2019 during which Harry and his colleagues on the Committee engaged with members of our workforce to understand their views. It is the intention that Harry and/or other members of the SS&W Committee will meet with representatives of our employees, at least annually. Further details of the Board's engagement with its workforce will be included in next year's Annual Report. This complies with the requirement on workforce engagement detailed in the UK Corporate Governance Code published in July 2018, which the Board fully endorses.

**Annual General Meeting**
I would like to encourage shareholders to attend our 2019 Annual General Meeting, details of which are set out in the separate Notice of AGM sent out with this Annual Report. This is an opportunity, for our small shareholders in particular, to meet our Directors and we welcome their attendance.

**The year ahead**
The period since the last AGM has been one of intensive and encouraging activity for the Board and the Company. It now stands on a much firmer foundation, and the long-awaited implementation of the Pressure Oxidation process has opened new horizons for Petropavlovsk. In the years ahead, we shall seek further to develop the Group and to build on recent success for the benefit of all of our shareholders.

**Sir Roderic Lyne**
Non-Executive Chairman
24 April 2019

# Board of Directors

## Chairman

**The Rt. Hon. Sir Roderic Lyne**
**Non-Executive Chairman** *(N*)*

*Sir Roderic Lyne was appointed as Non-Executive Chairman on 29 June 2018.*

*Experience*
Sir Roderic Lyne was first appointed to the Board in April 2009 upon the Company's merger with Aricom PLC, and was appointed as the Senior Independent Director in November 2015. He was also Chairman of the Company's Remuneration and HSE Committees. Sir Roderic continued to act in such a capacity until June 2016, when he retired as a Director. He was subsequently appointed as Chairman of Petropavlovsk following the Company's AGM on 29 June 2018.

Sir Roderic was previously a Non-Executive Director of Aricom PLC, a position he held from October 2006 until April 2009, and a Director of the Russo-British Chamber of Commerce from April 2006 to July 2009. He served as British Ambassador to Russia from January 2000 until August 2004, and speaks Russian.

He is a former Non-Executive Director of Accor, Senior Adviser successively to HSBC, BP and JP Morgan, Deputy Chairman of the Council of the Royal Institute of International Affairs (Chatham House), and Chairman of the Governors of Kingston University. He was a member of the Committee of the Iraq Inquiry and was appointed to the Privy Council in 2009.

*External Appointments*
Sir Roderic is a Non-Executive Director of JP Morgan Bank International.

## CEO

**Dr Pavel Maslovskiy**
**Chief Executive Officer** *(N) (S) (E*)*

*Dr Pavel Maslovskiy cofounded the Company in 1994 together with former Chairman Peter Hambro. He 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 from December 2011. He resigned from the Board and from the position of CEO in July 2017, and was reappointed following the Company's AGM on 29 June 2018.

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

*External Appointments*
None.

## Independent Non-Executive Directors

**Mr James W Cameron Jr**
**Independent Non-Executive Director** *(A) (R)*

*Mr James Cameron Jr. was appointed as an Independent Non-Executive Director of Petropavlovsk PLC on 15 October 2018.*

*Experience*
Mr Cameron, a US qualified lawyer, has extensive international experience, providing expertise and consulting services for companies particularly in the natural resources sector within Russia and the former Soviet Union, since 1988. He was formerly Founder, CEO and Chairman of Occupational Urgent Care Systems Inc., a company traded on the NASDAQ National Market System until it was sold in 1992.

*External Appointments*
CEO and Chairman, Cameron & Associates

**Mr Damien Hackett**
**Independent Non-Executive Director** *(N) (A) (R) (S)*

*Mr Damien Hackett was appointed as an Independent Non-Executive Director of Petropavlovsk PLC on 15 October 2018.*

*Experience*
Mr Hackett has 26 years critical investment research experience covering globally diverse mining companies, initially as Global Head of Mining Research with Credit Suisse – First Boston in Australia, following which he held similar roles with Credit Suisse and Canaccord Genuity in London. Latterly he was Vice Chairman Mining Advisory at Canaccord Genuity responsible for developing investment themes in metals and mining across North America, Europe, Russia and Australia.

Mr Hackett's early career in resources was grounded in 4 years of exploration, resource development and mining in Western Australia followed by 7 years in mineral exploration and economic assessment in Saudi Arabia. Mr Hackett holds a Bachelor of Science from the Australian National University in Canberra.

*External Appointments*
Mr Hackett is Chairman of UrAmerica Ltd, a private uranium exploration company in Argentina.

## Non-Executive Director

**Mr Robert Jenkins**
**Independent Non-Executive Director** *(A*) (R*) (N)*

*Mr Robert Jenkins was originally appointed as an Independent Non-Executive Director in April 2015 and as a Senior Non-Executive Director in June 2016, a position he held until June 2017. Mr Jenkins was Chairman of the Audit Committee and was a member of the Nominations Committee. He was reappointed to the Board as an Independent Non-Executive Director following the Company's AGM on 29 June 2018.*

*Experience*
Mr Jenkins is a Chartered Accountant, has an MA in Modern History and Modern Languages from Oxford University, and is a fluent Russian speaker. He has 25 years of Russia-related investment and natural resources experience. Mr Jenkins was formerly Finance Director of AIM listed Eurasia Mining PLC, a Russia-focused mining exploration company, and Chief Financial Officer of Urals Energy, a Russia-based oil exploration and production company. He was formerly Senior Independent Director and Audit Committee Chairman of Ruspetro Plc, a Russia-focused independent oil and gas production company, and Audit Committee Chairman of Toledo Mining Corporation PLC, which is engaged in nickel ore production in the Philippines.

*External Appointments*
Mr Jenkins is also currently a Non-Executive Director of Brazilian Nickel PLC and of Oppenheimer Resources, a Luxembourg-registered investment vehicle engaged in financing oil and gas producers in the US.

**Mr Harry Kenyon-Slaney**
**Senior Independent Director** *(S*) (A) (N)*

*Mr Harry Kenyon-Slaney was appointed as an Independent Non-Executive Director of Petropavlovsk PLC on 7 November 2018 and as Senior Independent Director on 23 April 2019.*

*Experience*
Mr Kenyon-Slaney has over 33 years of experience in the mining industry, principally with Rio Tinto. He is a geologist by training and his experience spans operations, marketing, projects, finance and business development. Until 2015, Mr Kenyon-Slaney was a member of the Group Executive committee of Rio Tinto where he held the roles of CEO of Energy, and before that CEO of Diamonds and Minerals. Prior to this he led Rio Tinto's global titanium dioxide business, was CEO of Rio Tinto's listed subsidiary, Energy Resources of Australia Ltd, was GM Operations at Palabora Mining Company in South Africa and held senior marketing roles in copper, uranium and industrial minerals.

He began his career as an underground geologist with Anglo American on the gold mines in South Africa. Mr Kenyon-Slaney has a BSc Geology from Southampton University.

*External Appointments*
Mr Kenyon-Slaney, is currently Non-Executive Chairman of Gem Diamonds Limited, Non-Executive Director of Sibanye Gold Limited (trading as Sibanye-Stillwater) and a senior advisor to McKinsey & Co.

Mr Kenyon-Slaney is a member of the advisory board of directors of Schenck Process AG.

**Mr Bektas Mukazhanov**
**Non-Executive Director** *(S)*

*Mr Bektas Mukazhanov was first appointed to the Board of Petropavlovsk PLC, as a Non-Executive Director, in February 2018 and served until June 2018, before being reappointed by the current Board in July 2018.*

*Experience*
Mr Mukazhanov brings a wealth of knowledge from his professional experience at a senior level in the financial and information technology industries.

Mr Mukazhanov holds degrees in computer science and information technology and is a CFA charterholder.

*External Appointments*
Mr Mukazhanov is an Investment Advisor at Fincraft Holdings Ltd, the largest shareholder of Petropavlovsk.

*N = Member of the Nominations Committee*
*A = Member of the Audit Committee*
*R = Member of the Remuneration Committee*
*S = Member of the Safety, Sustainability and Workforce Committee*
*E = Executive Committee*
**= Chairman of the Committee*

# Executive Committee

The Company's Executive Committee was reconstituted on 1 January 2019, and comprises a focussed and experienced senior executive team who manage the Group on a day-to-day basis. Terms of Reference of the Executive Committee are available on the Company's website at www.petropavlovsk.net.

Dr Pavel Maslovskiy, Chief Executive Officer, whose biographical details are provided on page 98 is Chairman of the Executive Committee. Biographical details of the other members of the Executive Committee are as follows:

**Dr Alya Samokhvalova**
**Deputy CEO**

Dr Alfiya (Alya) Samokhvalova is Deputy Chief Executive Officer and a Member of the Safety, Sustainability and Workforce Committee of the Board of Directors. In addition, Dr Samokhvalova is Head of the Company's Corporate Office. Dr Samokhvalova joined the Company in 2002.

Dr Samokhvalova is also a Non-Executive Director of the Russo-British Chamber of Commerce and a member of the Global Advisory Board of Cass Business School.

Dr Samokhvalova holds a Masters in Investment Management from Cass Business School, London, and a PhD in Economics from the Moscow International High Business School, a BSc in Accounting and Audit (All Russia Distant Economic and Finance Institute, Moscow) and a BSc in Pharmacy (Alma-Ata State Medical University). She also holds a Professional Accountant Certificate from the Institute of Professional Accountants of Russia.

**Mr Alexey Dubynin**
**Chief Financial Officer**

Mr Alexey Dubynin was appointed as Chief Financial Officer in July 2018.

Mr Dubynin has been employed with the Company since 2012, initially as Group Head of Internal Audit, being appointed as Group Financial Controller in April 2013 prior to his promotion as Chief Financial Officer.

Prior to his employment with Petropavlovsk, Mr Dubynin was employed by a number of large Russian companies within the mining and metallurgical sectors, in senior financial, audit and risk roles.

Mr Dubynin is a fellow member of the Association of Chartered Certified Accountants.

**Mr Sergey Ermolenko**
**General Director MC Petropavlovsk**

Mr Sergey Ermolenko is the General Director of Management Company Petropavlovsk. Mr Ermolenko served as a Director and as Interim Chief Executive Officer of Petropavlovsk PLC from 18 July 2017 until 16 April 2018. He previously served in this role from December 2011 to November 2014 when Dr Pavel Maslovskiy was serving as a Russian senator.

Mr Ermolenko is one of the original members of the Group's founding management team. He has held top managerial positions with the Group since its inception in 1994 and has been instrumental in the expansion of the Group into a multimine operation, overseeing the commissioning of Pokrovskiy, Pioneer, Malomir and Albyn.

He was appointed General Director of Management Company Petropavlovsk in 2004. In this capacity, he led the expansion of the Group into a multi mine operator.

**Mr Nikolai Vlasov**
**Group Chief Geologist**

Mr Nikolai Vlasov has many years of experience in gold exploration and mining within the Amur region.

Mr Vlasov was one of the original members of the Company's founding management. Prior to this he was the chief geologist of the only comprehensive geological exploration expedition in the Amur Region. Mr Vlasov also headed the government department for the evaluation of gold resources in the Russian Far East.

In his role of Group Chief Geologist, Mr Vlasov leads the Group's exploration work.

Mr Vlasov has received various state awards including for excellence in exploration of mineral resources, Honored Prospector of mineral resources and Honored Geologist of the Russian Federation.

**Mr Mikhail Safray**
**Senior Legal Adviser**

Mr Mikhail Safray joined the Petropavlovsk Group in August 2018 and was appointed as Senior Legal Adviser in November 2018.

Prior to joining the Company, Mr Safray held a number of senior legal positions with large Russian and international companies, including his tenure at Alfa Group, Immofinanz AG and Interros. He also acted as legal counsel for the European Bank for Reconstruction and Development in London where he was responsible for investments in industrial companies in the CIS countries and the Balkans.

Mr Safray graduated from the National Research University Higher School of Economics, summa cum laude, and received a PhD degree from the Kutafin Moscow State Law University and LL.M from the Boston University.

# Governance Report

**Corporate governance framework**
The following sections of this report detail the work and operation of the Board, and the corporate governance framework within which 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.

**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 Governance Report is arranged around these main principles and together with the Audit Committee Report (on pages 112 to 120), the Directors' Remuneration Report (on pages 121 to 138) and the Nominations Committee Report (on pages 110 to 111) sets out how the Company has applied the main principles of the Code during 2018.

**Statement of Code Compliance**
The Company has complied with the requirements of the Code published in April 2016 (the '2016 Code') throughout the year ended 31 December 2018, with the following exceptions.

**Board composition, Code Provision B.1.2**
At the Annual General Meeting of the Company held on 29 June 2018 (the '2018 AGM'), shareholders:

– Approved the appointment of Sir Roderic Lyne, Dr Pavel Maslovskiy and Mr Robert Jenkins as Directors. Their appointment was proposed by two of the Company's major shareholders, together representing 9.1% of the Company's voting rights; and
– Voted not to reappoint any of the then incumbent Directors (Mr Ian Ashby, Chairman, Messrs Bruce Buck, Adrian Coates and Garrett Soden, Independent Non-Executive Directors and Mr Roman Deniskin, Chief Executive Officer).

Following the 2018 AGM, the Board appointed Sir Roderic Lyne as Chairman and Dr Pavel Maslovskiy as Chief Executive Officer. The Board also initiated immediate action to appoint additional Independent Non-Executive Directors. Mr Bektas Mukazhanov, who had ceased to be a Director of the Company on 8 June 2018, was re-appointed as a Non-Independent Non-Executive Director of the Company on 27 July 2018. Mr Mukazhanov was proposed as a Director by Fincraft Holdings Ltd, the Company's largest shareholder.

Due to these exceptional circumstances, from 29 June 2018 until 15 October 2018, when Messrs James W Cameron Jr and Damien Hackett were appointed as Independent Non-Executive Directors, the composition of the Board did not comply with the 2016 Code in respect of the number of Independent Non-Executive Directors required for a smaller listed company.

Following the appointment of Mr Harry Kenyon-Slaney as an additional Independent Non-Executive Director on 7 November 2018 the Board comprises:

– The Non-Executive Chairman;
– The Chief Executive;
– Four Independent Non-Executive Directors; and
– One Non-Executive Director.

Current status: The composition of the Board, with a majority of Independent Non-Executive Directors, complies with the 2016 Code and the UK Corporate Governance Code published in July 2018 (the '2018 Code').

Details of:

– The process undertaken by the Company for the appointments of Messrs Cameron, Hackett, Kenyon-Slaney and Mukazhanov are provided in the Nominations Committee Report on page 110; and
– All changes to the Board during 2018 and up until the date of this Report are detailed in the Directors' Report on page 139 of this Annual Report.

**Committee compliance, Code Provisions B.2.1, C.3.1 and D.2.1:**
During the period from 29 June 2018 to 12 November 2018:

– The Audit and Remuneration Committees comprised Mr Robert Jenkins, Independent Non-Executive Director as Chairman and Sir Roderic Lyne; and
– The Nominations Committee was chaired by Sir Roderic Lyne assisted by Mr Robert Jenkins and Dr Pavel Maslovskiy, Chief Executive Officer as members of the Committee.

During this period none of the Audit, Remuneration or Nominations Committees complied with the requirements of the Code relating to membership. This was again due to the need to process the recruitment of new Independent Non-Executive Directors, as only three Directors had been appointed at the AGM.

On 12 November 2018, following the appointment of three new Independent Non-Executive Directors (as detailed above), the Board approved a new Committee membership (detailed in Table C on page 106).

Current status: The composition of the Audit, Remuneration and Nominations Committees is now fully compliant with the 2016 and 2018 Codes.

In addition, the Board has established a Safety, Sustainability and Workforce Committee, details of which are provided on page 97 of this Annual Report.

**Independence of Directors Provision B.1.1**
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.

Sir Roderic Lyne and Mr Robert Jenkins were proposed as Directors of the Company by CABS Platform Limited ('CABS') and Slevin Limited ('Slevin'), major shareholders of the Company together having an interest in 9.1% of the Company's voting rights over its ordinary shares. Upon his appointment Sir Roderic Lyne was elected by the Board as Chairman of the Company.

Neither Sir Roderic Lyne nor Mr Jenkins have any relationship with CABS, Slevin or any other major shareholder of the Company except in their capacity as a Director of the Company. When informed of the proposal by CABS and Slevin that they should be appointed as Directors, they made clear that they would not be nominees of any group of shareholders and would accept appointment only as Independent Directors, responsible to, and acting in the interests of all shareholders equally.

Sir Roderic Lyne previously served as a Director of Aricom Limited, from 2 October 2006 until 22 April 2009 and as a Director of Petropavlovsk PLC from 22 April 2009 until he retired from the Board on 28 June 2016. The Board considers that, given Sir Roderic has no connection with any major shareholder, and that he had retired as a Director two years prior to his appointment as Chairman, having had no involvement with the Company or its operations during this time, (except in his capacity as a small shareholder up to mid-2017), he was independent upon his appointment as Chairman.

Mr Robert Jenkins was previously a Director of the Company for the period from 30 April 2015 to 22 June 2017. Given that Mr Jenkins has no connection with any major shareholder and that he was previously a Director of the Company for a period of only just over 2 years, he is considered by the Company, and by the terms of the Code, as being an Independent Director.

**Senior Independent Director, Code Provision A.4.1**
Following the 2018 AGM the Directors agreed that until the Board was fully constituted it was not appropriate to appoint a Senior Independent Director ('SID'). The Board is now fully compliant with the Code in terms of membership, with four Independent Non-Executive Directors. Following review and recommendation of the Nominations Committee, the Board has approved the appointment of Mr Harry Kenyon-Slaney as Senior Independent Director with effect from 23 April 2019.

**Board evaluation, Code Provision B.6**
The fully constituted new Board met for the first time on 4 December 2018. The first annual evaluation of the Board's performance and of its Committees will therefore be undertaken in the autumn of 2019. Accordingly, the Company did not comply with Provision B.6 of the Code which requires that a board undertakes an annual evaluation of its performance and of its Committees on an annual basis. No evaluation was undertaken by the previous Board in the year to 29 June 2018.

**Code Provisions A.4.2 and B.6.3**
In addition, and for the reasons provided above, the Company did not comply with Code Provisions A.4.2 and B.6.3 which require that, led by the SID,:

- The NEDs should meet at least annually to appraise the performance of the Chairman; and
- The NEDs should be responsible for the performance evaluation of the Chairman, taking into account the views of the Executive Directors.

The Board expects to comply with the relevant provisions of the 2018 Code during 2019 in this respect.

**Role of the Board**

Current Membership:

**Sir Roderic Lyne**
*Non-Executive Chairman*
**Dr Pavel Maslovskiy**
*Chief Executive Officer*
**Mr James W Cameron Jr**
*Independent Non-Executive Director*
**Mr Damien Hackett**
*Independent Non-Executive Director*
**Mr Robert Jenkins**
*Independent Non-Executive Director*
**Mr Harry Kenyon-Slaney**
*Senior Independent Director*
**Mr Bektas Mukazhanov**
*Non-Executive Director*

Further information:

- The Group's near-term, medium-term and long-term strategy, set by the Board, is fully described in the Strategic Report on page 12 and 13; and
- Directors' Biographies are on pages 98 to 99.

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; and
- To shareholders for the long-term sustainable success of the Company. The Board's role is to ensure that the Company follows its strategy and that a financial and operational structure is in place to enable the Group to meet its goals.

Some decisions are sufficiently material that they can only be made by the Board as a whole. The schedule of 'Matters Reserved for the Petropavlovsk PLC Board', and the Committees' terms of reference, explain which matters are delegated and which are retained for the Board's approval. These documents are available on the Company's website.

| Role of the Board | |
|---|---|
| *Code compliant:*<br>*The Board comprises seven Directors including a Non-Executive Chairman and four Independent Non-Executive Directors.* | |
| **Board composition and roles** | |
| *Non-Executive Chairman:*<br>**Sir Roderic Lyne** | The Chairman provides the leadership to and direction of the Board. His objective is to promote the strategic 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:*<br>**Dr Pavel Maslovskiy** | 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. |
| *Senior Non-Executive Director*<br>**Mr Harry Kenyon-Slaney** | 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 Directors or for which such contact is inappropriate. |
| *Code Compliant:*<br>*The Non-Executive Chairman and Chief Executive Officer have clearly defined and separated responsibilities.* | |
| *Independent Non-Executive Directors:*<br>**Mr James W Cameron Jr**<br>**Mr Damien Hackett**<br>**Mr Robert Jenkins**<br>**Mr Harry Kenyon-Slaney** | The Independent 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 Chief Executive Officer and the Chief Financial Officer. They both challenge management, helping develop the Group's strategy, and monitor the performance of management. |
| It is the Board's view that the current Non-Executive Directors have sufficient time to fulfil their commitments to the Company and the Chief Executive Officer does not hold a Non-Executive Directorship in any company. The Board together with the Nominations Committee considers the appropriateness of Board composition and further details are provided in the Nominations Committee Report on page 110. | |
| *Code compliant:*<br>*The Board comprises of four Independent Non-Executive Directors* | |
| *Code compliant:*<br>*Non-Executive Chairman*<br>*Senior Independent Director*<br>*Four Independent Non-Executive Directors , including the Senior Independent Director*<br>*The Non-Executive Directors meet periodically with the Chairman without the Executives being present*<br>*The Non-Executive Directors hold meetings without the Chairman or Executive Directors being present* | |

**Corporate governance reforms**
The 2018 Code was published in July 2018. The 2018 Code:

- Introduces new requirements around employee consultation, pay practices, board culture, composition and diversity; and
- Encourages companies to report on how the 2018 Code's principles have been applied each year.

The Board has reviewed its existing practices to identify where they are in line with the 2018 Code and to consider revisions to these where required.

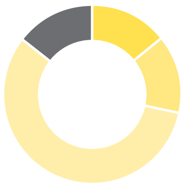
In response to the requirement for the Board to engage with its workforce, the Board has constituted the Safety, Sustainability & Workforce Committee (the SS&W Committee), chaired by Mr Harry Kenyon-Slaney, Independent Non-Executive Director. Mr Kenyon-Slaney and his fellow members of the Committee met with representatives of the Company's workforce and the trade unions during the Board's recent visit to the Group's operations in Russia. Further meetings will be held at least annually. In addition it is intended that members of the SS&W will meet with representatives of the local community and other stakeholders in the future.

The Board will report against the 2018 Code in the 2019 Annual Report.

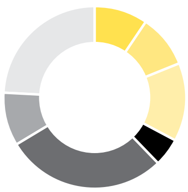
**Effectiveness and Accountability of the Board**

**The Directors Business Experience, Independence and Country of Permanent Residence**
The graphs opposite 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.

### Board balance of Directors




### Business experience




### Independence


### Nationality


### Language skills – Russian




### Language skills – English




Understanding of the gold mining industry, Russia and knowledge of the Group's operations are essential to the Board's ability to lead the Company.

Petropavlovsk has a strong, highly qualified and independent Board to lead the Group into the next phase of its development.

**Board activities during the year**
Three scheduled Board meetings were held by the Board which was in office until 29 June 2018, with a number of additional meetings being held, principally in relation to the bridge loan provided to IRC in June 2018 and the 2018 AGM.

The Board elected on 29 June held 13 meetings up to 31 December 2018. Five meetings followed the set schedule and, eight additional meetings were convened to deal with ongoing business, including the refinancing of IRC's project finance facility with ICBC for which the Company was the guarantor. Several of these additional meetings were called at short notice and were accommodated partly 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:

– The reconstitution of the Board, the stabilisation of the Company and definition of its key objectives, and the revival of its leadership following the election of a new Board and CEO;

– Monitoring the progress of the construction of the POX Hub, with the first two autoclaves commissioned prior to end-December 2018, and the mining operations;

– Monitoring the progress of the ramping up of IRC's K&S Facility and the financial position of IRC given the Company's 31.1% stake in IRC and guarantee in respect of IRC's ICBC facility;

– Consideration and approval of two bridge loans provided to IRC in June 2018 and December 2018, in order that IRC could repay the scheduled payments due under the ICBC facility;

– Consideration and recommendation to shareholders of the proposed new guarantees in respect of the new facilities for IRC with Gazprombank, to refinance the ICBC facility;

– Reviewing Group policies and procedures and approving amended Terms of Reference for the Board Committees, as well as Terms of Reference of the Executive Committee; and

– Reviewing the revised UK Corporate Governance Code, published in July 2018, and establishing a new Safety, Sustainability and Workforce Committee (the SS&W Committee). The SS&W Committee will engage with the Group's workforce in order to understand their views and any concerns they might have, communicating these to the Board such that they can be taken into account in the Board's discussions and decision making.

**Committees of the Board in 2018**
As explained on page 102, Messrs Ian Ashby, Bruce M. Buck, Adrian Coates, Garrett Soden and Roman Deniskin were not reappointed as Directors at the AGM held on 29 June 2018. During the period between 29 June 2018 and 12 November 2018 the Company was not able to form the various Committees (Audit, Remuneration and Nominations) in a form which was compliant with the Code.

During 2018 the Board had three Committees focusing on specialist areas, which were ultimately accountable to the Board. These comprised:

– The Audit Committee;

– The Nominations Committee; and

– The Remuneration Committee.

The Board constituted a new Safety, Sustainability & Workforce Committee on 12 November 2018, which is chaired by Mr Harry Kenyon-Slaney.

The Board committees met independently and provided feedback to the Board through their chairmen.

## Committee membership from 1 January to 29 June 2018 – Table A

| | Audit Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|
| Ian Ashby | Member | Member | Chairman |
| Bruce M Buck | Member | Chairman | Member |
| Garrett Soden | Chairman | Member | Member |

## Committee membership from 29 June 2018 to 12 November 2018 – Table B

| | Audit Committee | Remuneration Committee | Nominations Committee |
|---|---|---|---|
| Roderic Lyne | Member | Member | Chairman |
| Robert Jenkins | Chairman | Chairman | Member |
| Pavel Maslovskiy | | | Member |

## Committee membership from 12 November 2018 to 31 December 2018 – Table C

| | Audit Committee | Remuneration Committee | Nominations Committee | Safety, Sustainability & Workforce Committee |
|---|---|---|---|---|
| Roderic Lyne | | | Chairman | |
| Robert Jenkins | Chairman | Chairman | Member | |
| Pavel Maslovskiy | | | Member | Member |
| James W Cameron Jr | Member | Member | | |
| Damien Hackett | Member | Member | | Member |
| Harry Kenyon-Slaney | Member | | Member | Chairman |
| Bektas Mukazhanov | | | | Member |
| Alya Samokhvalova | | | | Member |

The roles and activities of each of these Committees are detailed on page 108.

The Board provides sufficient resources to its Committees to enable them to undertake their duties.

The Company also operates an Executive Committee which is responsible for the day-to-day management of the Company and provides a conduit between management and the Board. Members of the Committee and their biographies are provided on pages 100 to 101.

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

**Induction and Professional Development**
An induction programme is discussed with each new Director upon appointment. Directors 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.

Visits to the Group's gold mining operations are an important part of a Director's induction. The full Board visited the Group's gold mining operations in early April 2019.
The Directors visited the Group's offices in Blagoveshchensk, the Malomir mine and the POX Hub at Pokrovskiy. A visit to IRC's K&S facility was also arranged. During the visit the Chairman of the Safety, Sustainability & Workforce Committee, and members of this Committee, met with representatives of the workforce. Management presentations were arranged for the Board including from Mr Nikolai Vlasov, Group Chief Geologist.

As detailed in the Audit Committee Report on page 112, Mr Jenkins, Audit Committee Chair, visited the Group's mining operations in November 2018, together with the Company's external auditor, Deloitte LLP, including the Albyn, Malomir and Pioneer mines and the POX Hub facility. Mr Jenkins has also attended the Group's offices in Moscow for meetings with the Chief Financial Officer, members of the Group's financial reporting team and Group Head of Internal Audit.

As part of their induction, Messrs Cameron, Hackett and Kenyon-Slaney, new members of the Audit Committee, had an in-depth briefing session with management on financial control and reporting matters, to ensure that they understood all relevant matters to enable them to participate fully in Committee meetings. New members of the Remuneration Committee met with Mercer Kepler, adviser to the Committee as part of their induction. Meetings are also arranged for new Directors with members of the Senior Executive, including with Dr Alya Samokhvalova, Deputy Chief Executive Officer and Mr Alexey Dubynin, Chief Financial Officer.

As part of the issuance of the Class 1 Circular in relation to the proposal to guarantee IRC's obligations under its new facilities with Gazprombank, the Board had a detailed presentation from the Company's brokers advising them of their responsibilities as Directors of a listed company.

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 team. The Board receives presentations and verbal updates from the Chief Executive Officer, Chief Financial Officer and other 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 Chief Executive Officer or members of the Senior Executive. 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, the Chairman 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.

**Senior Adviser and President**
As announced with the Company's 2018 half-year results, Mr Peter Hambro, who co-founded the Company with Dr Maslovskiy, was appointed to the non-Board position of President of the Company and as Senior Adviser to the Board. Mr Hambro is not a member of the Company's management or executive and has no authority therefore to bind the Company or take executive decisions.

During the period 26 July 2018 to 19 December 2018 Mr Hambro acted as a nominee of JSC "Pokrovskiy mine" on the board of IRC Ltd in accordance with the terms of the bridging loan agreement between IRC Ltd and JSC "Pokrovskiy mine", a principal subsidiary of Petropavlovsk PLC. Mr Hambro resigned as a nominee Director when he was appointed as Chairman of IRC Ltd.

**Investor engagement**
**2018 Annual General Meeting**
The following table details the resolutions proposed at the 2018 AGM by the Company which received significant votes against:

| Resolutions: | 'For' | 'Against' |
|---|---|---|
| Re-election of Mr Ian Ashby | 47.76% | 52.24% |
| Re-election of Mr Adrian Coates | 42.70% | 57.30% |
| Re-election of Mr Roman Deniskin | 42.60% | 57.40% |
| Re-election of Mr Bruce M. Buck | 41.72% | 58.28% |
| Re-election of Mr Garrett Soden | 47.57% | 52.43% |

Given the events of the last two years, with two changes of Board, the Board is very mindful of its obligation to maintain a dialogue with all shareholders based on the mutual understanding of objectives. In this respect the Chairman and Independent Non-Executive Directors are available to meet with Shareholders at their request and welcome such dialogue.

As detailed in the Directors' Remuneration Report on page 130, the Directors' Remuneration Report for the year ended 31 December 2017 was not approved by shareholders, receiving 71.54% of votes cast 'against' the resolution. Membership of this Committee changed on 29 June 2018 following the 2018 AGM. Action taken by the 'new' Committee to address the concerns raised by those shareholders who voted against the 2017 Directors' Remuneration Report is detailed in the Directors' Remuneration Report on page 121.

All resolutions at the 2018 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. All resolutions will be voted by way of a poll at the 2019 AGM.

**Investor engagement during the year**
The Board aims to maintain an open and transparent dialogue with its shareholders and 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. Small retail shareholders are important to the Company and the investor relations team ensures that copies of all investor presentations are made available on the Company's website at www.petropavlovsk.net

Over 45 meetings were held by the Company with a range of equity shareholders, both existing and potential, and fixed income investors during the second half of the year. During the year executive management also attended investor conferences in Europe, including both London and Moscow.

The Chief Executive Officer, Chief Financial Officer and Deputy Chief Executive Officer ensure 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 2019 Annual General Meeting**
Individual shareholders are important to the Company 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.

The Audit, Remuneration and Safety, Sustainability and Workforce Committee Chairmen 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 Nominations Committee.

**Annual re-election of Directors**
In accordance with the UK Corporate Governance Code published July 2018 all Directors will be offering themselves for re-election or appointment at the AGM on 13 June 2019. The re-election of each of the Directors has been reviewed by the Nominations Committee and the Board who are satisfied that each of the Directors continues to be effective and demonstrates commitment to the role and that their election or re-appointment is in the Company's best interest. The Board recommends that shareholders vote in favour of the resolutions to appoint or re-elect all of the eligible Directors of the Company and the reasons for this recommendation will be set out in the Appendix to the Notice of the Annual General Meeting.

**Board Committees**
A diagram detailing the corporate governance framework established by the Board including the principal role of each Board Committee is shown below.

The Company Secretary acts as secretary to the Audit, Remuneration, Nominations and Safety, Sustainability and Workforce Committees.

## Board structure – as at 31 December 2018

**Board**
- Responsible for the Group's system of corporate governance
- Ultimately accountable for the Group's activities, including strategy, risk management 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 internal and external auditors;
- Overseas external audit process;
- Reviews the financial risks; and
- Reviews internal audit plans.

**Membership**
Robert Jenkins (Chair)
James W Cameron Jr
Damien Hackett
Harry Kenyon-Slaney

See pages 112 to 120 for more information

**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; and
- Ensures that the Company maintains contact with Shareholders regarding the Company's remuneration policy.

**Membership**
Robert Jenkins (Chair)
James W Cameron Jr
Damien Hackett

See pages 121 to 138 for more information

**Nominations 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; and
- Evaluates the skills and experience of the Board before any appointment is made to the Board.

**Membership**
Sir Roderic Lyne (Chair)
Robert Jenkins
Harry Kenyon-Slaney
Dr Pavel Maslovskiy

See pages 110 and 111 for more information

**Safety, Sustainability & Workforce Committee**
- Reviews the Group's health, safety, environmental and community relations ("Sustainability") strategy;
- Evaluates the effectiveness of the Group's policies and systems for managing Sustainability issues and risks;
- Assesses the performance of the Group with regard to the impact of Sustainability decisions and actions; and
- Seeks active engagement with the Group's workforce on behalf of the Board.

**Membership**
Harry Kenyon-Slaney (Chair)
Damien Hackett
Dr Pavel Maslovskiy
Bektas Mukazhanov
Dr Alya Samokhvalova

Please see pages 72 and 97.

Meetings of the Board, Board Committees and attendance of members from:

**Table D:**

**12 November 2018 to 31 December 2018**

| | Board[1] | | Audit | | Remuneration | | Nominations | |
|---|---|---|---|---|---|---|---|---|
| Sir Roderic Lyne[2] | C | 1/1 | – | – | – | – | C | 0 |
| Pavel Maslovskiy | M | 1/1 | – | – | – | – | M | – |
| James W Cameron[4,6] | M | 1/1 | M | 1/1 | M | 1/1 | – | – |
| Damien Hackett[4,6] | M | 1/1 | M | 1/1 | M | 1/1 | – | – |
| Robert Jenkins[6] | M | 1/1 | C | 1/1 | C | 1/1 | M | 0 |
| Harry Kenyon–Slaney[5,6] | M | 1/1 | M | 1/1 | – | – | M | 0 |
| Bektas Mukazhanov[3] | M | 1/1 | – | – | – | – | – | – |

**29 June 2018 to 12 November 2018 (date of constitution of new Board Committees)**

| | Board[1] | | Audit | | Remuneration | | Nominations | |
|---|---|---|---|---|---|---|---|---|
| Sir Roderic Lyne[2] | C | 4/4 | M | 1/1 | M | 1/1 | C | 2/2 |
| Pavel Maslovskiy | M | 4/4 | – | | – | – | M | 2/2 |
| Robert Jenkins[6] | M | 4/4 | C | 1/1 | C | 1/1 | M | 2/2 |
| Bektas Mukazhanov[3] | M | 3/3 | – | – | – | – | – | – |

*Key: C = Chairman, M = Member*

1 *Scheduled Board meetings. Additional Board meetings were held throughout this period, principally relating to strategic matters, including the refinancing of IRC's project finance facility with ICBC and general administrative matters.*

2 *Sir Roderic Lyne was deemed to be independent by the Board on his appointment as Non-Executive Chairman.*

3 *Mr Mukazhanov was re-appointed as a Non-Executive Director of the Company on 27 July 2018.*

4 *Messrs James W Cameron Jr and Damien Hackett were appointed as Independent Non-Executive Directors of the Company on 15 October 2018.*

5 *Mr Harry Kenyon-Slaney was appointed as an Independent Non-Executive Director of the Company on 7 November 2018.*

6 *The Board has determined that Messrs James W Cameron Jr, Damien Hackett, Robert Jenkins and Harry Kenyon-Slaney are independent.*

**Table E:**

**1 January 2018 to 29 June 2018**

| | Board[1] | | Audit | | Remuneration | | Nominations | |
|---|---|---|---|---|---|---|---|---|
| Ian Ashby[6] | C | 3/3 | M | 1/1 | M | 3/3 | C | 1/1 |
| Sergey Ermolenko[2] | M | 2/2 | – | – | – | – | – | – |
| Bruce M Buck[6] | M | 3/3 | M | 1/1 | C | 3/3 | M | 1/1 |
| Adrian Coates[3,6] | M | 3/3 | – | – | – | – | – | – |
| Roman Deniskin[2] | M | 1/1 | – | – | – | – | – | – |
| Andrey Maruta[4] | M | 2/2 | – | – | – | – | – | – |
| Bektas Mukazhanov[5] | M | 3/3 | – | – | – | – | – | – |
| Garrett Soden[6] | M | 3/3 | C | 1/1 | M | 3/3 | M | 1/1 |

*Key: C = Chairman, M = Member*

1 *Scheduled Board meetings. Additional Board meetings were held throughout this period, principally relating to strategic matters, including the refinancing of IRC's project finance facility with ICBC, approval of the June 2018 Bridge Loan provided to IRC, the 2018 Annual General Meeting and administrative matters.*

2 *Mr Ermolenko resigned as a Director and as Interim Chief Executive Officer on 16 April 2018 upon the appointment of Mr Roman Deniskin to this position. Mr Ermolenko reverted to his previous position of General Director of MC Petropavlovsk.*

3 *Mr Coates was appointed as an Independent Non-Executive Director of the Company on 16 February 2018.*

4 *Mr Maruta resigned as a Director and as Chief Financial Officer on 31 March 2018.*

5 *Mr Mukazhanov was appointed as a Non-Executive Director of the Company on 8 February 2018, and was removed from this position on 8 June 2018.*

6 *Mr Ashby was deemed to be independent by the Board on his appointment as Non-Executive Chairman. Messrs Buck, Coates and Soden were considered by the Board to be independent.*

# Nominations Committee Report

## Letter from the Nominations Committee Chairman

### Dear Shareholder

**Introduction**
In addition to the Chairmanship of the Board, I act as Chair of the Nominations Committee, the other members of which are Robert Jenkins and Harry Kenyon-Slaney, Independent Non-Executive Directors, and Pavel Maslovskiy, Chief Executive Officer. I am also pleased to confirm the appointment of Damien Hackett, Independent Non-Executive Director, with effect from today's date. Details of Committee membership during 2018 are provided on page 106.

**Board changes**
As detailed in the Governance Statement, following my appointment to the Board at the Company's Annual General Meeting (the 'AGM') on 29 June 2018, one of my first priorities was to rebuild the Board and the senior management team. Following the AGM, the Board immediately initiated action to recruit additional Non-Executive Directors and to appoint a Chief Financial Officer.

As members of the Committee, Robert Jenkins and I led the process, on behalf of the Board, to appoint the new Independent Non-Executive Directors. We defined criteria for the roles we wished to fill (including experience in mining and natural resources, in capital markets, in Russia, and in Board-level positions) and engaged Savannah Group, an experienced global search firm, to assist us. The Savannah Group has no other connection to the Company or any individual Director.

Through this process and after interviewing a strong range of candidates, we were able to announce the appointment of Messrs. James W Cameron Jr and Damien Hackett as Independent Non-Executive Directors of the Company on 15 October 2018 and of Mr Harry Kenyon-Slaney as an Independent Non-Executive Director of the Company on 7 November 2018. We were delighted to recruit such highly qualified Directors to strengthen the Board, and they have brought a wealth of expertise and experience to our work, greatly to the Company's benefit. Details of their biographies are provided on pages 98 to 99.

Mr Bektas Mukazhanov (who had served briefly on the Board from 8 February 2018 to 8 June 2018) was proposed for reappointment as a Director, by Fincraft Holdings Ltd, the Company's major shareholder. The Nominations Committee welcomed this proposal, noting both Mr Mukazhanov's personal qualities and the accepted practice for a major shareholder to have a nominee Director on the Board. The Committee considered that Mr Mukazhanov had the relevant experience and skills to make a valuable contribution to the Board and decided to reappoint him as a Non-Executive Director from 27 July 2018. The Company has entered into a formal Relationship Agreement with Fincraft Holdings Ltd and Mr Kenges Rakishev, the beneficial shareholder of Fincraft which governs the rights of Fincraft, Mr Rakishev and the Company and manages any potential conflict situations.

The Committee was also pleased to approve the appointment of Mr Alexey Dubynin, as Chief Financial Officer. This is an executive appointment outside the Board, but Mr Dubynin attends all Board meetings by invitation and works closely with the Directors. Alexey has been employed by the Company since 2012, initially as Group Head of Internal Audit and as Group Financial Controller from April 2013.

**Diversity statement**
One of the stated objectives of the Nominations Committee, both during the above appointment process and in the future, is to enhance the diversity of the Board. The seven-member Board now comprises nationals of five different countries (the UK, Russia, Kazakhstan, the USA and Australia) with a wide range of appropriate backgrounds and experience. All of the current Directors are male. It is the Board's aim to identify and recruit both female and younger Directors with relevant qualifications. We sought to achieve this during the recent recruitment and interviewed candidates of both genders and different ages, but for differing reasons were not able to meet that specific objective at this stage. We are actively seeking to improve the gender and age balance on the Board, while ensuring selection is on the basis of merit against objective criteria.

The Committee was pleased to approve the appointment of Dr Alya Samokhvalova as Deputy Chief Executive Officer in July 2018, reporting directly to Dr Pavel Maslovskiy and attending Board and Committee meetings by invitation. Alya has been employed by the Company since 2002. Her knowledge, professionalism and experience are a great asset to the Company.

Female employees comprise c.25% of the Group's workforce, a c.2% increase on 2017. The Company is committed to operating as a responsible employer, promoting the fair treatment, non-discrimination and equal opportunity of workers.

**Board composition and appointment of Senior Independent Director**
As a result of the appointments made since June 2018, Petropavlovsk now has a strong and independent Board to lead the Group into the next phase of its development.
As Non-Executive Chairman (with a decade's experience as an Independent Director in the Group) I am supported by four Independent Non-Executive Directors, one Nominee Non-Executive Director and one Executive Director, the Chief Executive Officer.
Following stabilisation of the new Board, the Nominations Committee considered the appointment of a Senior Independent Director and was pleased to recommend the appointment of Mr Harry Kenyon-Slaney.
Mr Kenyon-Slaney's appointment as Senior Independent Director was approved on 23 April 2019. The Group is fully compliant with the UK Corporate Governance Code published in July 2018 in this respect.

**Diversity**

| | Male | Female |
|---|---|---|
| Board | 100% | |
| Executive Committee | 80% | 20% |
| Direct Reports to Executive Committee | 58% | 42% |
| All Employees | 75% | 25% |

**Succession planning**
Our critical task since June 2018 has been to stabilise and strengthen the Group's leadership after a period of turbulence. This we have achieved. Effective succession planning will also be vital for the future development of Petropavlovsk. As all of the Non-Executive Directors are serving their first year in their current capacities, succession planning for the Board is a task for the future rather than the current year, but underlies our intention over time to address Board succession planning requirements.

At the executive level, we have recognised the importance of developing or recruiting younger executives with the capability to take on the most senior roles. This has been underlined by the Board and will be the subject of further discussion within the Committee over the coming year.

**Effectiveness of the Committee**
The Committee has not reviewed its effectiveness during 2018 as its members have yet to serve a full year. A review will be carried out in the latter part of 2019.

**Re-election of Directors**
The Committee has considered the performance of each of the Directors, taking into account the balance of skills, knowledge, independence and experience of each Director, and has recommended to the Board that all Directors should seek re-election at the Company's forthcoming AGM.

In accordance with the new version of the UK Corporate Governance Code published in July 2018 the specific reasons why the contribution of each Director is, and continues to be, important to the Company's long-term sustainable success will be set out in the 2019 Notice of Annual General Meeting and accompanying papers. I will be available at the AGM to answer any questions that Shareholders may wish to ask on the work of the Committee.

**Sir Roderic Lyne**
Chairman
Nominations Committee

24 April 2019

**Additional activities prior to June 2018:**

- Evaluation of each of the eligible Directors in respect of their re-election at the 2018 AGM and subsequent recommendation to the Board;
- Consideration of the appointment of Mr Bektas Mukazhanov as a Non-Executive Director and recommendation to the Board;
- Approval of the 2017 Nominations Committee Report;
- Consideration of potential candidates to be appointed as an additional Independent Non-Executive Director, following which the Committee recommended the appointment of Mr Adrian Coates to the Board; and
- Recommendation to the Board of the appointment of Mr Roman Deniskin as CEO, following a selection process.

# Audit Committee Report

## Letter from the Audit Committee Chairman

### Dear Shareholder

I was appointed as Committee Chair on 29 June 2018 following my appointment as an Independent Non-Executive Director of the Company at the 2018 AGM. I had previously acted as Audit Chair from May 2015 until June 2017. Consequently, I had extensive knowledge of the Group, and already understood the role and challenges of its Audit Committee.

To ensure that I was fully informed on matters that had occurred since my departure in June 2017, I visited the Group's offices in Moscow in early July, meeting with Alexey Dubynin, then Group Financial Controller, prior to his appointment as CFO on 27 July 2018 and with other key staff responsible for financial control and reporting related matters as well as with Andrey Sotnikov, Group Head of Internal Audit who reports to the Committee in this role. I also undertook a visit to our mining operations in November 2018, visiting our Albyn, Malomir and Pioneer mines as well as the POX Hub at Pokrovskiy. During this visit I met with members of the Group's senior management teams at its mining operations and new POX Hub facility as well as with its Chief Geologist. I was accompanied by members of the Deloitte audit team together with their geologist and metallurgist specialists assisting them on technical matters.

I have also had several meetings with members of our London Corporate team including our Deputy CEO, Alya Samokhvalova and our Group Head of Corporate Reporting, Natalia Buynova. The site visit, meetings with senior management and separate discussions with our external audit partner have provided good assurance about the controls and management of the Group's business operations.

Since 12 November 2018, my new colleagues on the Committee have been James Cameron, Damien Hackett and Harry Kenyon-Slaney, all of whom are Independent Non-Executive Directors. An in-depth briefing session was arranged upon their appointment to ensure that my colleagues had a proper understanding of relevant matters to enable them to participate fully in their first Committee meeting.

Prior to their appointment, Sir Roderic Lyne was my fellow Committee member. Sir Roderic resigned as a member upon their appointment, ensuring that the constitution of the Committee complies with the UK Corporate Governance Code (the 'Code'). Details of Committee membership during the year are detailed on page 106 of this Annual Report.

As Independent Non-Executive Directors, my colleagues and I are of an independent mindset and, accordingly, we have no hesitation in seeking clarification and a full explanation from management or the external auditor on any matter we feel necessary.

**Significant judgements**
I chaired my first Committee meeting in September 2018, where we considered the 2018 interim results and received reports from management and the external auditor. At that time the going concern assumption was the principal matter requiring significant judgement of the Committee.

As at the date of the approval of the Company's 2018 interim results, IRC's facility with ICBC had not been refinanced although discussions with a leading Russian bank were ongoing. Given that the Group had guaranteed IRC's outstanding loan owing to ICBC and that certain financial covenants were due to be tested on the next testing date of 30 June 2019, the 'going concern' statement contained reference to a material uncertainty in this respect.

We are very pleased that, with management's efforts, IRC's bank debt with ICBC has now been refinanced through a new facility with Gazprombank. In general, the new Gazprombank facility is on more favourable de-risking terms to the Company and IRC. It provides a more relaxed amortisation schedule and over an extended period, to 2026, for IRC to repay its debt, substantially improving the financial stability of both companies. It reduces the Company's guarantee, on the basis as approved by its Shareholders on 12 March 2019.

Significant judgements for the Committee's consideration at the year-end related to:

- The going concern assumption;
- The carrying value of mining assets including the POX Hub;
- Valuation of the Company's investment in IRC;
- Accounting for Petropavlovsk's guarantee over IRC's debt; and
- Accuracy and completeness of deferred tax.

These matters are discussed later in this report.

**Audit retendering**
Deloitte LLP has been the external auditor of the Company since 2009 when Deloitte won a competitive tender. The year ended 31 December 2018 was therefore the tenth consecutive audit for Deloitte, as the current incumbent auditor. As stated in the 2017 Annual Report, and in accordance with current legislation, the Company was required to tender the audit for the year ended 31 December 2019.

However, given the Board changes at the 2018 AGM, the appointment of a new Chief Financial Officer in July 2018 and three new members to the Committee in November 2018, we have sought permission to defer this tender until later in 2019, with effect for the financial year ending 31 December 2020. This will enable the Committee to undertake a proper audit tender process as outlined in the Financial Reporting Council's ('FRC') Notes on Best Practice for Retendering.

The FRC has approved the Company's application for an extension to cover the financial period ending 31 December 2019. The Committee will tender the audit following the approval of the 2019 interim results. This will allow a detailed process and a smooth transition should a new auditor be appointed. Amongst other matters the tender will consider the quality and cultural fit of the lead partner and key members of their team, the approach to client services and quality of the audit, technical expertise and independence of the audit firm.

**Other matters**
The Committee continues to oversee 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 position and performance, business model and strategy. In addition, the Committee has advised the Board on the viability statement required under the Code.

In the following report the Committee has sought to provide shareholders with an understanding of the work that we have done to provide assurance on the integrity of the 2018 Annual Report and financial statements. I hope that you will find this informative.

Robert Jenkins

**Robert Jenkins**
Audit Committee Chairman
24 April 2019

## Governance

The Audit Committee is chaired by Mr Jenkins and its other members are Messrs Cameron, Hackett and Kenyon-Slaney, all Independent Non-Executive Directors.

Mr Jenkins 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. He was also previously Audit Committee Chairman of UK AIM listed Philippines nickel ore producer Toledo Mining Corporation PLC.

Messrs Hackett and Kenyon-Slaney also have relevant experience within the mining sector. Mr Hackett has 26 years' investment analyst research experience covering globally diverse mining companies, initially as Global Head of Mining Research with Credit Suisse – First Boston in Australia, following which he held similar roles with Credit Suisse and Canaccord Genuity in London. Latterly he was Vice Chairman Mining Advisory at Canaccord Genuity responsible for developing investment themes in metals and mining across North America, Europe, Russia and Australia. Mr Kenyon-Slaney is a geologist by professional qualification and his experience spans operations, marketing, projects, finance and business development. He has over 33 years' experience in the mining industry, principally with Rio Tinto and is currently Non-Executive Chairman of Gem Diamonds Limited and a Non-Executive Director of Sibanye Gold Limited, a Johannesburg listed gold precious metal mining group trading as Sibanye-Stillwater.

Mr Cameron, a US qualified lawyer, has extensive international experience, providing expertise and consulting services for companies particularly within Russia. The Board therefore considers that the Committee as a whole has competence relevant to its responsibilities in the context of the sector in which it operates. The biographies of Messrs Jenkins, Cameron, Hackett and Kenyon-Slaney are provided on pages 98 and 99.

The Chief Executive Officer, the Chief Financial Officer, the Group Head of Internal Audit and Group Head of Corporate Reporting and other Directors are invited to attend Committee meetings with representatives of Deloitte LLP, the external auditor, attending all Committee meetings in 2018. In addition, the Committee Chairman meets on a regular basis with 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. He also has regular meetings with the Head of Internal Audit who reports to the Committee.

Having been lead audit partner since 2014 and leader of Deloitte's UK metals and mining audit group, Mr Timothy Biggs, resigned in December 2018, following a change in his role at Deloitte. Under independence requirements, he would have been required to rotate as lead audit partner following the audit for the year ending 31 December 2018. In his place, Mr Chris Thomas was appointed as lead audit partner in December 2018. Mr Thomas is a Deloitte audit partner based in London who has specialised in the metals and mining sector for almost all of his 21 years at Deloitte. He has been a Partner for eight years and leads the Deloitte UK Metals and Mining audit group.

## Summary of the Committee's role and 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;
- Where requested by the Board, reviewing the content of the annual report and accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- 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;
- The appropriateness of the Company's relationship with the external auditor, 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;
- Monitoring and reviewing the effectiveness of the Group Internal function in the context of the Company's overall risk management system; and
- Leading the external audit tender process.

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; and
- Have direct access to the resources of the Group as it may reasonably require including the external and internal auditors.

## The Committee's focus during 2018

The Committee met on three occasions during the financial year. During the year, amongst other matters, the Committee:

*Financial statements and reports*

- Reviewed the 2017 Annual Report and Accounts and the six months' Half Year report ended 30 June 2018 before recommending their adoption by the Board. As part of these reviews the Committee received reports from management and 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; and
- Considered whether the 2017 Annual Report and Accounts, taken as a whole were fair, balanced and understandable and reported to the Board on its conclusion.

# **Audit Committee Report** continued

*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. See pages 26 to 29 of the Principal Risks and Mitigation section which describes the Group's principal financial risks during the year and actions taken to mitigate them; and
- Received and considered reports detailing litigation in which the Company and/or any of its subsidiaries are involved.

*Internal audit*

- Evaluated the effectiveness of the internal audit function, by reviewing the reports, conclusions and recommendations of the Group Internal Auditor, and discussing these with the Chief Executive Officer and members of the senior executive team. Approving the scope of work to be undertaken by Group Internal Audit during 2018. These included audits to be performed at the Group's mining operations. During the year the Group Head of Internal Audit presented his findings to the Committee from various assignments which internal audit had been requested to undertake by the Committee. The presentation included details of issues identified and subsequent actions taken;
- Audits undertaken during the year, amongst others, comprised:
  - Audit of the POX project – given the critical importance of the POX project to the Group, and as part of the Company's risk mitigation procedures, the Committee requested a review of this project to ensure that it was being completed within the agreed budget and timeframe and that any issues could be highlighted to the Committee in a timely manner. The audit concluded that the POX project was well managed within the agreed budget and timeframe, with all key project risks being addressed by management. This has been substantiated by the success of the POX commissioning;
  - Audit of underground mining operations – an audit was initiated by the Committee given the importance of these operations in enabling the Group to improve its short and mid-term cash flow and facilitate long-term sustainability. The audit concluded that management had successfully dealt with the start-up execution risks of underground mining. Despite some delays at the start of underground mining including unexpected ground water at Pioneer, both Malomir and Pioneer reached full capacity during 2018;
  - Audit of the Group's management reporting, specifically relating to budgeting. Internal audit identified potential scope to enhance the Group's budgeting systems. The Committee will evaluate these further with management during 2019;
- Reviewed and approved the 2019 audit plan which covers all of the Group's mines and its offices in both Moscow and Blagoveshchensk. This will include an audit of working capital management, the Group's procurement and supply process together with follow-up audits; and
- Reviewed management responses to internal 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; and
- Agreed the terms of engagement for the audit of the 2018 financial statements.

To date in 2019, the Committee has reviewed, in particular, the following matters in relation to the 2018 financial statements:

- The going concern assumption;
- Impairment of mining assets;
- Valuation of the Company's investment in IRC:
- Accounting for the guarantee of IRC's debt; and
- Accuracy and completeness of deferred taxation.

*Evaluation of Committee's performance*
The Committee is required to undertake an annual evaluation of its own performance. Given that three of the four members of the Committee were not appointed until 12 November 2018, no such evaluation was undertaken during 2018. An evaluation will be conducted following the publication of the 2018 Annual Report, details of which will be disclosed in the Company's 2019 Annual Report.

The Committee has also advised the Board on:

- Whether the 2018 Annual Report and Accounts (the '2018 Report') taken as a whole is fair, balanced and understandable and the Directors' statement in this respect is set out on page 144. The Committee and the Board are satisfied that the 2018 Report meets this requirement, as appropriate weight has been given to both positive and negative developments in the year.

  In justifying this statement, the Committee has considered the robust process which operated in creating the 2018 Report, including:
  - A thorough process of review, evaluation and verification of the inputs from the Group's operations is undertaken to ensure accuracy and consistency;
  - The Committee considered the conclusions of the external auditor over the key audit risks that contributed to their audit report, specifically going concern, impairment of mining assets, the valuation of the Company's investment in IRC accounting for the guarantee of IRC's debt and the accuracy and completeness of deferred tax; and
- The long-term viability statement of the Company required in accordance with provision C.2.2 of the 2016 Code.

| Significant issues considered by the Audit Committee in relation to the Group's 2018 interim financial statements | Audit Committee action | Conclusion |
|---|---|---|
| The key judgement for the Committee during 2018 related to the appropriateness of the use of 'going concern' as the basis of accounting.<br><br>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 at the date of approval of the Company's 2018 interim financial statements, the Group's assessment was highly sensitive to the following matters.<br><br>– The Group's projections under a layered stressed case that was based on a gold price, 10% to 15% lower than the average of the market consensus forecasts, production forecasts that were approximately 8% lower than budgeted, and a Russian Rouble to US Dollar exchange rate that was approximately 7% stronger than the average of the market consensus forecasts, indicated that unless mitigating actions could be taken, there would be insufficient liquidity for the relevant period to October 2019.<br><br>– In relation to IRC: if full refinancing of the ICBC facility was not completed prior to 20 December 2018, the next scheduled repayment instalment date, IRC's financial liquidity would be adversely impacted. IRC and/or the Group would then need to implement contingency plans, including potentially entering into negotiations with banks or other investors for additional debt and/or equity financing. | Given the implications of the layered stressed case and the importance of IRC's financial position due to the Company's guarantee, the Committee continually monitored these matters and considered the appropriateness of the going concern assumption by:<br><br>– Discussing with management the potential options that were available to the Company to mitigate the risk of insufficient liquidity; and<br><br>– Receiving regular updates from the CEO, CFO and Deputy CEO on the status of the bank negotiations for the refinancing of the ICBC facility. | In reviewing the half-yearly financial statements for the six months ended 30 June 2018, the Committee considered the mitigating options available to the Company and the progress of the IRC refinancing negotiations. The Committee noted that the risk that the ICBC refinancing was not completed or alternative contingency plans were not realised represented a material uncertainty which may cast significant doubt upon the Group's ability to continue to apply the going concern basis of accounting.<br><br>Nevertheless, having taken all factors into account the Directors agreed that they had a reasonable expectation that the Group would 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 half year report for the period ended 30 June 2018 and therefore the going concern basis of accounting remained appropriate.<br><br>**Post-interim event**<br>On 18 December 2018, IRC's subsidiary Kimkano-Sutarsky Mining and Beneficiation Plant LLC entered into two new facility agreements with Gazprombank (Joint-Stock Company). Following Petropavlovsk shareholder approval, on 12 March 2019, of the guarantees to be provided by the Company to Gazprombank, the ICBC facility has been fully repaid. In addition, the Gazprombank facility has enabled IRC to repay c.US$57m to the Company in respect of the two bridge loans it has provided to IRC and c.US$6m in respect of fees owing to the Company for its guarantee of the ICBC loan facility. |

# **Audit Committee Report** continued

The Committee identified the issues below as significant in the context of the 2018 financial statements. The Committee considers these areas to be significant taking into account the level of materiality and the degree of judgement exercised by management. The Committee has debated these issues in detail to ensure that the approaches taken were appropriate.

| Issue | Committee action | Conclusion |
|---|---|---|
| **The going concern assumption**<br>(see note 2.1 to the financial statements)<br><br>A key judgement for the Committee relating to the 2018 financial statements concerned the appropriateness of the basis of accounting.<br><br>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.<br><br>In December 2018 IRC agreed to a refinancing of the ICBC debt of its subsidiary (K&S) with Gazprombank. Following Petropavlovsk shareholder approval on 12 March 2019, the Company entered into new guarantees with Gazprombank in respect of this debt. The risk of K&S defaulting on its loan, and hence the risk that Petropavlovsk may be liable to repay the outstanding loan, has been reduced by K&S entering into the Gazprombank Facility and repaying the ICBC Facility because the Gazprombank Facility provides for a significantly more relaxed amortisation schedule compared to that under the ICBC Facility; and better aligns with the proposed ramp up of K&S and the revenues that are anticipated to be generated by it.<br><br>However, the Group's US$100 million 9% Convertible Bonds mature on 18 March 2020 and the Group's forecast liquidity is dependent on meeting operational targets, including the successful ramp-up of the POX Hub, and also on utilising forward gold sale facilities that are already available to it.<br><br>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 five years in their long-term viability statement. The viability statement can be found on page 143. | The Committee has addressed this matter through:<br><br>– 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 gold production from the POX Hub, the future gold price, the Russian Rouble US Dollar exchange rate assumptions, the timing of planned capital expenditure on development projects; and<br><br>– Considering the mitigating actions proposed by management in the event of a reasonable downside scenario during the going concern period, including the purchase and processing of third-party gold concentrate, deferral of capital expenditure. (The analysis prepared by management having indicated that there would likely be a requirement for mitigating action due to insufficient liquidity in a reasonable worst case scenario, including so as to be able to repay, if necessary, the Group's US$100 million 9% Convertible Bonds maturing on 18 March 2020.) | Following careful review of all factors and after making enquiries and considering the uncertainties aforementioned and as detailed in the going concern statement on page 143, the Committee has 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 2018 Annual Report and Accounts and accordingly, the going concern basis is the appropriate basis for the preparation for the 2018 financial statements. The Committee advised the Board accordingly. |

| Issue | Committee action | Conclusion |
|---|---|---|
| **Carrying value of mining assets including POX**<br>(see note 6 to the financial statements)<br><br>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. Where management identified an indicator of impairment or impairment reversals, an impairment test should be performed. The Group's calculation of a value in use for its mining assets 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, particularly given the recent successful commissioning of the POX Hub. Consequently, the comparison of the carrying value of the Group's mining assets with their net present value and whether an impairment or reversal of impairment is necessary requires significant judgement. | The Committee has addressed this through:<br>– Receiving reports from management outlining the basis for the assumptions used, including assumptions on the gold price, the discount rate used for the projects, the Russian Rouble US Dollar exchange rate, production in accordance with the Group's long-term mining plan and processing of third party concentrate to utilise the available capacity of the POX Hub and capital expenditure in accordance with the Group's long-term plan. Management's analysis included the key risks from future cashflows at both Pioneer and Malomir which include those from the POX Hub, taking into account the recent commissioning of the POX Hub and hence its limited performance record. The Committee considered this issue at some length with management and challenged their assumptions;<br>– Receiving regular updates on the commissioning of the POX Hub. All members of the Committee visited the POX Hub and the Malomir flotation plant in early April 2019 and reviewed these operations with key members of senior operational management; and<br>– Discussing with the external auditor their view on the impairment testing procedure including the key assumptions used by management. | Taking the above into account the Committee is satisfied with the thoroughness of the approach and judgements taken.<br>The Committee has considered all relevant facts and circumstances and recommended to the Board:<br>– A reversal of the impairment taken at 31 December 2013 against the carrying value of the assets relating to Malomir; and<br>– A further reversal of impairment previously recorded against the carrying value of the assets of the supporting in-house service companies to the extent of the headroom available at Malomir and Albyn and relevant carrying values allocated to these.<br><br>Details of the impairment reversals totalling c.US$102 million are set out in note 6 to the financial statements on page 180 and on pages 91 and 92 of the Chief Financial Officer's Report. |
| **Valuation of the Company's investment in IRC**<br>(see note 14 to the financial statements)<br><br>Petropavlovsk holds a 31.1% interest in IRC and accounts for this investment as an associate using the equity method. IAS 28 Investments in Associates and Joint Ventures states that impairment indicators should be considered with reference to IFRS 9 Financial Instruments and that, if indicators are identified, the potential impairment should be determined with reference to IAS 36 Impairment of Assets.<br><br>The key judgements for the Committee related to the assumptions made by IRC management in its valuation of the property, plant and equipment and, in addition, the completeness and accuracy of the adjustments recognised by the Group. A critical accounting judgement related to whether the Company has significant influence or control over IRC and consequently whether the accounting treatment to be applied for IRC as an associate is appropriate. | The Committee has addressed this matter through:<br>– Receiving a paper from management on IRC control considerations in order to assess whether the investment in IRC should be accounted for as an associate using the equity method. This contained a range of evidence including relative shareholdings composition, the Group's representation level on the IRC Board and the independence of IRC in determining its recent refinancing arrangements; and<br>– Considering management's conclusion that there is objective evidence of an impairment of the Company's investment in IRC, notwithstanding that IRC has recognised a reversal of previous impairment losses at the K&S mine of US$90.5 million as at 31 December 2018 and challenging management's assessment. In making their assessment management took into consideration the depressed share price of IRC. | After consideration of management's analysis, the Committee agreed with the conclusion that Petropavlovsk does not have de facto control over IRC and that the accounting treatment of IRC as an associate is appropriate.<br><br>The Committee has also agreed with management's assessment that the Company's investment in IRC should be impaired by US$5.7 million to US$85.1 million as at 31 December 2018. |

| Issue | Committee action | Conclusion |
|---|---|---|
| **Accounting for Petropavlovsk guarantee over IRC's debt**<br>The Company previously provided a guarantee over IRC's debt with ICBC (the 'ICBC Facility') with a fee receivable equal to 1.75% of the guaranteed amount. The amount outstanding under the ICBC facility as at 31 December 2018 was US$169 million, representing the full amount of IRC's debt outstanding with ICBC.<br><br>The Company is required to value its liability for the provision of the guarantee, as well as the associated income stream of guarantee fee payments from IRC, in accordance with IFRS 9 Financial Instruments. Furthermore, during 2018 Petropavlovsk provided two bridging loans, for a total amount of c.US$57 million to IRC in order to enable it to make scheduled repayments to ICBC, and avoid a potential default. These must also be valued in accordance with IFRS 9 (which was adopted from 1 January 2018).<br><br>On 12 March 2019 Petropavlovsk's shareholders approved the provision of new guarantees for IRC's new US$240 million loan facility with Gazprombank which has replaced the ICBC Facility. As the Gazprombank guarantees were not approved before the balance sheet date, it will not be accounted for in the Company's 2018 financial statements.<br><br>The application of the new accounting standard valuations of these financial instruments is complex in respect of the applicable methodologies and the determination of the asset and liability values. These take into account a number of factors, including the assessed probability of IRC's future default. | The Committee has addressed this matter through:<br>– Engaging an external third party valuation expert;<br>– The Audit Committee Chair and other members of the Committee participating in a number of joint meetings with the Company's expert, management and the external auditor and their technical accounting experts, challenging the methodologies used and the assumptions applied; and<br>– Discussing with management and with the external auditor the findings of the valuation expert. | The Committee considers that the financial liability recognised in respect of the guarantee, and financial asset in respect of the guarantee fee income have been valued in accordance with IFRS 9 on transition at 1 January 2018 and as at 31 December 2018. In addition the Committee considers that the values for the bridging loans is consistent with the requirements of IFRS 9. |

| Issue | Committee action | Conclusion |
|---|---|---|
| **Accuracy and completeness of deferred tax**<br>The Group's deferred tax calculations reflect the additional complexity of the key operating entities having a US Dollar functional currency for determining the accounting base for its mining assets, but which have a Russian Rouble tax base. In addition the Group has historical losses for which the recognition of deferred tax assets will often require a judgement of the forecast profitability of the Group.<br><br>Management and the external auditor have identified prior year errors in relation to the calculation and recognition of deferred tax assets and deferred tax liabilities which is described in note 21 to the financial statements. Given these errors, the complexity of the calculations and the material size of the deferred tax liability balances recognised, the accuracy and completeness of deferred tax has been identified as a matter requiring significant judgement of the Committee. | The Committee has addressed this matter through:<br>– Receiving a paper from management explaining the background, facts and circumstances of this matter;<br>– Discussing this matter with the external auditor;<br>– Noting and approving the recommendation from management, supported by the external auditor, that material errors identified should be corrected in the 2018 consolidated financial statements by restating the comparative amounts and the opening balances of assets, liabilities and equity; and<br>– Considering and approving the proposed changes to the Group's control processes and procedures to ensure that a similar error does not occur in the future. | Following careful review the Committee is satisfied with the proposed restatement of the 2018 consolidated financial statements and recommended them to the Board for approval. |

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

Whilst recognising that three members of the Committee have only been members of the Committee and Directors of the Company for less than 6 months, the Committee has evaluated the effectiveness of the external auditor by taking the following actions.

- Reviewing Deloitte's proposed audit fee for the 2018 interim and year-end audits and after consideration recommending these to the Board for approval;
- Reviewing the non-audit fees payable to Deloitte, having regard to the policy on the provision of non-audit services (see note 7 for further discussion on this matter);
- Deloitte's "2018 Audit Transparency Report' in respect of the year ended 31 May 2018. 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; and
- The deep knowledge of the Company which enhances Deloitte's effectiveness as external auditor.

In addition, the Committee has met regularly with the external auditor who also undertook the review of the Company's 2018 interim results. The Committee considers that, on this basis, Deloitte remains effective in their role as external auditor.

It is planned that members of the Committee will meet to discuss Deloitte's performance and effectiveness during the 2018 year-end audit following the approval of the 2018 financial statements. This will also include discussions with the Chief Executive Officer and relevant members of the Company's senior management team.

The Committee has recommended to the Board that Deloitte be appointed as external auditor and a resolution will be proposed to this effect at the 2019 Annual General Meeting. However, as stated in the Committee Chair's introductory letter, the Committee will tender the audit following the approval of the 2019 interim results with appointment of the successful firm for the year ended 31 December 2020.

*Non-audit services*
The majority of non-audit fees paid to Deloitte were in respect of:

- Their engagement which was limited to that of reporting accountant on the provision of the new guarantees to be provided by the Company to Gazprombank in relation to the new finance facility provided to IRC. In accordance with the UK Listing Authority Listing Rules the provision of the guarantees constituted a Class 1 transaction, requiring shareholder approval. The appointment of Deloitte was approved by the Audit Committee and an independent review partner was involved; and
- Their appointment for the review of the Company's financial statement for the six months ended 30 June 2018. This is considered as standard practice for a listed company. Approval was given by the Audit Committee.

Deloitte's engagement on the above matters was undertaken in accordance with the Company's policy on the provision of non-audit services, a copy of which can be located on the Company's website or obtained from the Company Secretary. This policy follows the recommendations of the Financial Reporting Council on the provision of non-audit services contained within the Guidance on Audit Committees published in April 2016. 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 work on the Class 1 Circular within the time available given their detailed knowledge of the Group. This work is typically performed by a company's external auditor. Accordingly, in the opinion of the Committee, the independence and objectivity of Deloitte as external auditor to the Company, has not been impaired by their work in this respect.

A breakdown of non-audit fees paid in 2018 is set out in note 7 on page 182 of this Report.

**Internal Audit**

The internal audit function supports the Audit Committee. It also aims to raise levels of understanding and awareness of risk and control throughout the Group.

The Group Head of Internal Audit reports to the Committee Chairman and to the Group CFO.

**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 Safety, Sustainability and Workforce Committee and Executive Committee in addition to the Audit Committee, details of which are as follows.

- The Board (which receives advice from the Audit, Safety, Sustainability and Workforce and Executive Committees) has overall responsibility for the system of internal control and risk management in the Group. On behalf of the Board the Committee has considered the effectiveness of the Group's system of internal control. The Committee has given due consideration to the identified tax errors related to prior year. This matter is detailed on page 119. The Committee has also considered other control issues as part of its review of the 2018 financial statements. The Committee will consider these matters together with management to ensure that formalised documentation of processes and controls are in place and to ensure a robust control environment.
  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, that reviews the results of the Group's operations; and
- 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 clearly defined delegation of authorities, which covers all expenditure;
- Board approval of a Group annual budget, and updated subsequently as appropriate;
- Review by members of the Executive Committee of detailed management accounts including variance analysis against the approved annual budget, a copy of which is provided to the Board following this review;
- Appropriate segregation of duties throughout the Group, in particular separating the purchasing and ordering function from the processing and payments function;
- A centrally directed treasury function which manages the Company's cash and debt on a daily basis; and
- 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. A schedule of all related party 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 Principal Risks and Mitigation 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 16 to 33 of this Report.

**Overview**

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

# Annual statement from the Chairman of the Remuneration Committee (the “Committee”)

## Dear Shareholder

**Introduction**
On behalf of the Board I am pleased to present the Directors’ Remuneration Report for the year ended 31 December 2018. I was appointed by the Board to act as Committee Chair on 29 June 2018. Sir Roderic Lyne who was also appointed as a member of the Committee on 29 June, stepped down from this position on 12 November 2018 following the appointment of Messrs James W. Cameron and Damien Hackett as members of the Committee. The Committee comprises solely of Independent Non-Executive Directors.

The newly formed Committee has been very mindful of the concerns expressed by c71.5% of those shareholders who voted against the 2017 Directors’ Remuneration Report and since the formation of the new Committee, it has considered its decisions carefully and in accordance with the Company’s Remuneration Policy (the ‘Policy’), consulting with its advisers when required. Given that the current Policy was approved by shareholders at the 2018 Annual General Meeting (“AGM”), the Company is not required to propose a new Policy for approval at the 2019 AGM.

**CEO Remuneration and 2018 Annual Bonus**
The first duty of the Committee, following the 2018 AGM, was to give consideration to the remuneration arrangements for Dr Maslovskiy, following his re-appointment to the position of Chief Executive Officer. In doing so the Committee took into account Dr Maslovskiy’s experience and wealth of knowledge, particularly with regard to the construction and operation of the Pressure Oxidation (“POX”) Hub, a project that he had led prior to his resignation in July 2017, and the key management role he has played previously in leading the development of the Group. The Committee also took into consideration concerns raised by some shareholders relating to the remuneration arrangements for the former CEO, Mr Roman Deniskin who had been appointed to this position on 16 April 2018. After careful consideration of these matters, the Committee agreed that Dr Maslovskiy should receive the same remuneration as he had received when he departed the Company in July 2017. The Committee has subsequently agreed that no salary increase should be awarded to Dr Maslovskiy for the year commencing 1 January 2019.

Immediately following its appointment, the new Board committed to delivering on the following objectives:

– First, the construction and commissioning of the POX Hub; and
– Secondly, the refinancing of IRC’s existing ICBC loan facility and restructuring of the Group’s associated guarantee, so as to reduce the related risk exposures.

The Board also noted the unsatisfactory operational performance of the Group during H1 2018, resulting from the lack of leadership, and the related issues that needed to be addressed.

Consequently, the annual bonus performance conditions for 2018, which were determined following Dr Maslovskiy’s appointment, in line with the Remuneration Policy, were linked to these matters - covering both strategic initiatives and operational performance. The bonus for Dr Maslovskiy was heavily weighted towards the successful commissioning of the POX Hub (80%), given its strategic importance to the future of the Group. Other performance measures related to the refinancing of IRC’s existing ICBC loan facility and restructuring of the Group’s associated guarantee and the delivery of positive H2 2018 operational performance – both in terms of higher production and lower Total Cash Costs. Given the inherent health and safety risks within our business and our commitment to ensuring the safety of our employees, a portion of the bonus was also based on improvement in the Lost-Time Injury Frequency Rate.

The Board recognises that the achievement of these objectives, was substantially due to the return of Dr Pavel Maslovskiy as Chief Executive Officer on 29 June 2018. With the restoration of authoritative leadership and a resulting energised and motivated management team, the Company has delivered the successful commissioning of the POX Project, with the first gold produced in 2018. The new guarantee arrangements with Gazprombank, approved by shareholders on 12 March 2019, in relation to the refinancing of IRC’s debt obligations, are a significant step forward in the Board’s strategy of reducing the Group’s associated risk exposure and to create shareholder value. In addition, the Company has delivered on its production target and reduced costs.

Due to the achievement of these performance targets, as detailed in the Strategic Report, the Committee has awarded a bonus of c.49% of salary to Dr Maslovskiy. This reflects a full bonus entitlement pro-rated to c.49% to reflect the period of his employment as Chief Executive Officer during 2018.

**Other decisions**
The Committee recognises the importance of aligning the Executive’s interests with those of our shareholders and consequently the Committee intends to make a Performance Share Award under the Company’s Long-Term Incentive Plan to Dr Maslovskiy and other members of the senior executive management team following the announcement of the Company’s 2018 results. Details of the proposed Award and the performance measures are detailed on page 136.

**Executive Directors Shareholding Guidelines**
The new Committee noted the absence of a shareholding guidelines policy for the Company’s Executive Directors. After consideration the Committee has approved a shareholding requirement of its Executive Directors with an equivalent value of 150% of base salary. Executive Directors will be required to build up this shareholding within a period of 5 years. This policy currently applies to Dr Maslovskiy. Further details are provided on page 126.

**Termination arrangements**
The Committee also considered the employment termination arrangements for Mr Roman Deniskin who was not re-elected by shareholders at the 2018 AGM, having been appointed as Chief Executive Officer by the former Board in April 2018. Details of these arrangements, which are in accordance with the Policy, are provided on page 133.

Robert Jenkins

**Robert Jenkins**
Remuneration Committee Chairman
24 April 2019

**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 2018.

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

The current Remuneration Policy (the 'Policy') was approved at the 2018 AGM, receiving c.85% support from our shareholders.

The Statement from the Chairman of the Remuneration Committee (set out on page 121) and the Annual Report on Remuneration (set out on pages 129 to 138) will be subject to an advisory vote at the 2019 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 Executive Directors.

Information on how the Company intends to implement the Policy for the current financial year is set out in the Statement of Implementation of Policy in 2019 on pages 134 and 135.

| 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. Salary increases typically take effect from 1 January each year, unless there is a significant change in the responsibilities of the role.<br>Reviews take account of:<br>– The individual performance of the Executive Director, his or her experience, skills and potential;<br>– The challenges intrinsic to that individual's role;<br>– Market-competitiveness within the Group's sector;<br>– Salary increases across the wider employee population; and<br>– The wider pay environment.<br>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.<br>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. significant 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):<br>– Private medical insurance for the individual and family;<br>– Life assurance up to 4x salary, subject to underwriting;<br>– Ill-health income protection; and<br>– Travel insurance whilst on Company business. |
| Maximum opportunity | The cost of these benefits to the Company is dependent upon market rates and availability of the respective benefits. |
| Performance metrics | 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 | Executive Directors may receive contributions from the Company into a personal pension plan or similar savings vehicle. |
| Maximum opportunity | A Company contribution of up to12.5% of salary, depending on length of service, is made to a personal pension arrangement with a minimum contribution from the Executive Directors of 3%. Cash in lieu of pension may also be made by way of a salary supplement, or a combination of both. These arrangements depend on the individual 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.<br><br>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. The Committee retains the discretion to allow dividends (or equivalent) to accrue over the vesting period in respect of the awards that vest.<br><br>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. Please also refer to Note 1 on page 125. |
| Maximum opportunity | Maximum bonus opportunity is 100% of salary.<br><br>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.<br><br>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:<br><br>– Health and safety;<br><br>– Annual gold production;<br><br>– Total Cash Costs◆;<br><br>– All-in Sustaining Costs◆;<br><br>– Net Debt◆;<br><br>– Free cashflow;<br><br>– Delivery of Capital Expenditure◆ projects on time and within budget; and<br><br>– Exploration success.<br><br>Details of the measures applicable for the financial year under review are provided in the Annual Report on Remuneration.<br><br>The bonus scheme is not a contractual entitlement and the bonus is payable at the discretion of and subject to the approval of the Remuneration Committee. The 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.<br><br>The Committee retains the discretion to allow dividends (or equivalent) to accrue over the vesting period in respect of the awards that vest.<br><br>A two-year post-vesting holding period will apply to 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.<br><br>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.<br><br>Details of the measures, weightings and performance targets used for specific LTIP grants are included in the Annual Report on Remuneration as relevant.<br><br>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.<br><br>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. Please also refer to Note 1 below. |

Note 1: Given the international nature of the Group's business, the Company's ability to operate and/or enforce certain provisions and remuneration arrangements such as the malus and clawback provisions may be restricted by relevant local laws.

The Committee reserves discretion to make minor changes to this Policy, which do not have a material advantage to Executive 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 rewards 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 is 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**
The Committee has recently reviewed the Company's shareholding requirements for the Executive Directors, noting that there was no requirement for the Executive Directors to own any shares in the Company.

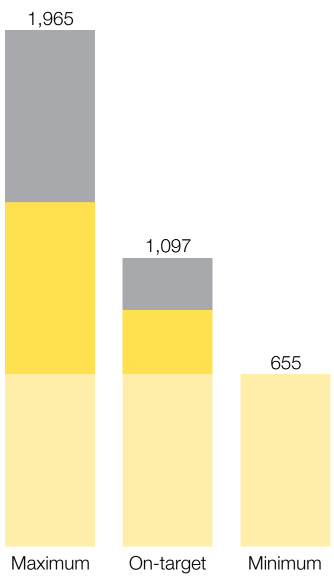
The Committee recognised that this was not in accordance with good corporate governance practice. After consideration the Committee has approved a shareholding requirement for its Executive Directors which will require them to build up a shareholding equivalent to 150% of their base salary during a period of 5 years.

This currently applies to Dr Pavel Maslovskiy, Chief Executive Officer, who is the sole Executive Director of the Company. In accordance with the policy Dr Maslovskiy will be required to build up a shareholding with a value of £982,500 during the period ended 31 December 2023. In determining this time period the Committee has taken into account the fact that Dr Maslovskiy's, having been re-appointed as Chief Executive Officer on 29 June 2018, has no outstanding share awards.

**Pay scenario charts**
The charts below provide an estimate of the potential future reward opportunities for the CEO, and the potential split between the different elements of remuneration under three different performance scenarios: 'minimum', 'on-target' and 'maximum'.

Potential reward opportunities are based on the Remuneration Policy, applied to the CEO's base salary as at 1 January 2019 of £655,000.

**Performance scenario (£'000)**




| | | | |
|---|---|---|---|
| Salary | 33.3% | 59.7% | 100% |
| Annual bonus | 33.3% | 22.4% | 0.0% |
| LTIP | 33.3% | 17.9% | 0.0% |

% of remuneration

**Key**
- Multi-year Variable
- Single-year Variable
- Fixed pay

The charts above exclude the effect of any Company share price appreciation.

The 'minimum' scenario shows base salary, that is, fixed remuneration. The CEO does not receive any benefits. This is the only element of the CEO's remuneration package which is not at risk.

For 2019 the 'on-target' scenario reflects fixed remuneration as above, plus a target payout of 37.5% of the annual bonus and threshold vesting of 30% of the maximum award under the LTIP. The 'on-target' bonus payout of 37.5% for 2019 reflects the fact that the financial performance target is binary.

The 'maximum' scenario reflects fixed remuneration, plus full payout of the annual bonus and LTIP award.

## 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. |
| Pension | 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.<br><br>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.

**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. Dr Pavel Maslovskiy, Chief Executive Officer is currently the only Executive Director of the Company.

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 |
|---|---|---|
| Pavel Maslovskiy | Chief Executive Officer | 29 June 2018 |

**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 Bonus 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.<br>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 appointments are as follows:

| Name | Date of original appointment | Unexpired term as at 31 December 2018 | Date of appointment/last reappointment at AGM | Notice period |
|---|---|---|---|---|
| Roderic Lyne | 29 June 2018 | 30 months | 2018 | 3 months |
| James Cameron Jr. | 15 October 2018 | 33 months | N/A | 3 months |
| Damien Hackett | 15 October 2018 | 33 months | N/A | 3 months |
| Robert Jenkins | 29 June 2018 | 30 months | 2018 | 3 Months |
| Harry Kenyon-Slaney | 7 November 2018 | 34 months | N/A | 3 Months |
| Bektas Mukazhanov | 27 July 2018 | 31 months | N/A | 3 Months[1] |

Mr Mukazhanov's appointment may also be terminated in accordance with the terms of the Relationship Agreement between Fincraft Holdings Ltd., Mr Kenges Rakishev (the sole beneficial owner of Fincraft) and the Company.

**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 Sustainability Report on pages 75 and 76 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 2018, and how the proposed Policy will be implemented in 2019. Any information contained in this section of the report that is subject to audit is highlighted.

### The Remuneration Committee

#### Membership and process

| Members | From | To | Number of meetings in 2018 – Attendance/Eligibility |
|---|---|---|---|
| Robert Jenkins (Chairman) | 29 June 2018 | Present | 2/2 |
| Damien Hackett | 12 November 2018 | Present | 1/1 |
| James W Cameron | 12 November 2018 | Present | 1/1 |
| Sir Roderic Lyne | 29 June 2018 | 12 November 2018 | 1/1 |
| Bruce M. Buck (Chairman) | 22 June 2017 | 29 June 2018 | 3/3 |
| Ian Ashby | 22 June 2017 | 29 June 2018 | 3/3 |
| Garrett Soden | 22 June 2017 | 29 June 2018 | 3/3 |

The Committee held five formal meetings during the year.

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

Strategic report
Governance
Financial statements

# **Directors' Remuneration Report** continued

**Activities of the Committee during 2018**
Key activities during the year included:

**Decisions made prior to 29 June 2018:**
*Committee membership:*
Mr Bruce M. Buck, Chairman,
Mr Ian Ashby,
Mr Garrett Soden.

- Determination of remuneration for Mr Roman Deniskin in respect of his appointment as Chief Executive Officer on 16 April 2018.

**Decisions made from 29 June 2018 to 31 December 2018:**
*Committee membership:*
Mr Robert Jenkins, Chairman,
Sir Roderic Lyne, stepped-down from the Committee on 12 November 2018,
Mr James W Cameron Jr, appointed on 12 November 2018,
Mr Damien Hackett, appointed on 12 November 2018.

- Determining the remuneration package for Dr Pavel Maslovskiy, following his appointment as Chief Executive Officer on 29 June 2018;
- Determination of performance measures for the 2018 annual bonus for Dr Maslovskiy following his appointment as Chief Executive Officer;
- Approval of the termination arrangements for Mr Roman Deniskin, Chief Executive Officer who left the Company on 29 June 2018; and
- Initial review of the Company's long-term incentive arrangements.

**External advisors**
In carrying out its responsibilities, the Committee is independently advised by external advisors.

Mercer 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. Mercer 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 2018, Mercer Kepler also provided support in advising on the revised Remuneration Policy which was approved by shareholders on 29 June 2018.

Mercer Kepler is a signatory to the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at www.remunerationconsultantsgroup.com).

Mercer Kepler reports directly to the Committee Chairman and neither Mercer 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 and life assurance scheme for the Company's UK based employees.

Mercer Kepler's total fees for the provision of remuneration services to the Committee in 2018 were £16,425 on the basis of time and materials, excluding expenses and VAT.

**Shareholder voting at the Annual General Meeting**
At the Annual General meeting held on 29 June 2018, the resolution on the Directors' Remuneration Policy, which came into effect on that date, received the following votes from shareholders:

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 1,996,614,738 | 84.57% |
| Against | 364,296,668 | 15.43% |
| Total votes cast (for and against, excluding withheld votes) | 2,360,911,406 | 100.00% |
| (71.46% of issued share capital) | | |
| Votes withheld[1] | 193,523,679 | |

1. *A vote withheld is not a vote in law and is not counted in the calculation of votes cast 'for' and 'against' a resolution.*

At the Annual General meeting held on 29 June 2018, the Directors' Remuneration Report received the following votes from shareholders:

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 599,100,824 | 28.46% |
| Against | 1,505,765,831 | 71.54% |
| Total votes cast (for and against, excluding withheld votes) | 2,104,866,655 | 100.00% |
| (63.7% of issued share capital) | | |
| Votes withheld[1] | 449,568,431 | |

1. *A vote withheld is not a vote in law and is not counted in the calculation of votes cast 'for' and 'against' a resolution.*

The above resolutions were voted on a poll.

Shareholders voted against the Directors' Remuneration Report for a number of reasons, including the level of bonus payment made to Mr Andrey Maruta, Chief Financial Officer, the remuneration in lieu of notice payment made to the Company's former Executive Chairman, Mr Peter Hambro and the level of remuneration agreed for Mr Roman Deniskin, former Chief Executive Officer upon his appointment in April 2018

The current members of the Remuneration Committee, none of whom were members of the Committee at the date of the 2018 AGM, have noted the concern of shareholders in respect of these issues. Given that membership of the Committee changed on 29 June 2018, the Committee decided not to specifically address the concerns of shareholders in a separate statement following the AGM as Committee members had not been party to these decisions. However, the Committee welcomes dialogue with the Company's shareholders and takes into account views of its shareholders and the guidance published by the various proxy advisory bodies in relation to remuneration matters when making decisions.

As in previous years and as required by law, details of the voting on all resolutions at the 2019 Annual General Meeting will be announced via a regulatory news service and posted on the Petropavlovsk website following the 2019 Annual General Meeting.

**Executive Directors' remuneration as a single figure (audited information)**
The remuneration received by Executive Directors in respect of the financial years ended 31 December 2018 and 31 December 2017 is set out below.

| | Year | Salary & fees | Taxable Benefit[e] | Annual Bonus[f] | Pension | Single Figure Remuneration Total £ | Single Figure Remuneration US$[g] |
|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | |
| Pavel Maslovskiy[a] | 2018 | 330,017 | 0 | 324,654 | 0 | 654,671 | 903,446 |
| | 2017 | 357,433 | – | – | – | 357,433 | 460,695 |
| **Former Executive Director** | | | | | | | |
| Roman Deniskin[b] | 2018 | 146,282 | 0 | 0 | 0 | 146,282 | 201,869 |
| | 2017 | – | – | – | – | – | – |
| Sergey Ermolenko[c] | 2018 | 145,833 | 0 | – | 0 | 145,833 | 201,250 |
| | 2017 | 227,151 | 0 | 56,788 | 0 | 283,939 | 365,968 |
| Andrey Maruta[d] | 2018 | 100,000 | 1,509 | 0 | 12,500 | 114,009 | 157,332 |
| | 2017 | 400,000 | 4,867 | 200,000 | 50,000 | 654,867 | 844,058 |
| Total | 2018 | 722,132 | 1,509 | 324,654 | 12,500 | 1,060,795 | 1,463,897 |
| Total | 2017 | 984,584 | 4,867 | 256,788 | 50,000 | 1,296,239 | 1,670,721 |

*(a) Dr Pavel Maslovskiy resigned as a Director and as Chief Executive Officer of the Company on 17 July 2017 and was re-appointed as a Director and Chief Executive Officer on 29 June 2018; the remuneration shown in the table relates to his appointment during the periods 1 January to 17 July 2017 and 29 June 2018 to 31 December 2018.*

*(b) Mr Roman Deniskin who was appointed as a Director and Chief Executive Officer of the Company on 16 April 2018 departed the Company on 29 June 2018.*

*(c) Mr Sergey Ermolenko was appointed as a Director and as Interim Chief Executive Officer of the Company on 18 July 2017 and resigned from this position on 16 April 2018.*

*(d) Mr Andrey Maruta resigned as a Director and as Chief Financial Officer on 31 March 2018.*

*(e) Benefits are in respect of private medical insurance for the Director, their spouse and any children under the age of 18.*

*(f) Value of annual bonus (including Deferred Bonus Awards) awarded in respect of the corresponding performance year.*

*(g) Converted from GBP to USD using the average exchange rate for the year (2018: £0.7246:US$1, 2017: £0.776:US$1).*

## Implementation of the Remuneration Policy in 2018

### Executive Directors

**Salary**
No salary increases were awarded to Mr Andrey Maruta, Chief Financial Officer or Mr Sergey Ermolenko, Interim Chief Executive Officer. Mr Maruta left the Company on 31 March 2018. Mr Ermolenko resigned as Interim Chief Executive Officer on 16 April 2018 upon the appointment of Mr Deniskin as Chief Executive Officer. Mr Ermolenko continued in his role as General Director MC Petropavlovsk.

Mr Deniskin was appointed as Chief Executive Officer on 16 April 2018 on a salary of £700,000. Mr Deniskin was not re-elected by shareholders at the 2018 AGM held on 29 June 2018 and left the Company on that date.

Dr Pavel Maslovskiy was appointed as Chief Executive Officer on 29 June 2018, following his appointment as a Director which was approved by shareholders at the 2018 AGM. The Committee approved an annual base salary of £655,000, being the salary that Dr Maslovskiy earned prior to his resignation as Chief Executive Officer on 17 July 2017.

**Pension**
The Group made contributions into a personal pension scheme on behalf of Mr Andrey Maruta, Chief Financial Officer from 1 January 2018 to the date of his resignation on 31 March 2018.

A rate of 12.5% of base salary (paid partly as a pension contribution and partly as a taxable cash supplement) was payable in return for a minimum personal contribution of 3% of salary on pension payments. Cash payments to Mr Maruta were made 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 from 1 January 2018 to 31 March 2018, the date of Mr Maruta's resignation, the Company's pension contribution for Mr Maruta was £12,500.

Dr Maslovskiy, Mr Ermolenko and Mr Deniskin received no payment from the Company in respect of pension entitlements.

**Annual bonus**
Annual bonus targets were agreed for Dr Maslovskiy following his appointment as Chief Executive Officer on 29 June 2018, in accordance with the Company's Remuneration Policy.

Immediately following the Company's 2018 AGM, the newly elected Board committed itself to restore leadership and momentum to Petropavlovsk's management and, in the then immediate future, to focus on three critical tasks:

(i) The construction and commissioning of the Company's POX Hub facility;

(ii) The refinancing of IRC's existing ICBC loan facility and restructuring of the Group's associated guarantee of this, so as to reduce the related risk exposures; and

(iii) Rebuilding the Company's Board and the senior management team.

Consequently, upon his appointment as Chief Executive Officer, Dr Maslovskiy undertook a full operational review, which revealed that, under the previous Board, there had been disruptions to mining operations in H1 2018, a delay in the development of underground mining at North East Bakhmut Pioneer and more critically that there had been delays in the development schedule for the POX Hub facility.

Taking these factors into account the Committee determined bonus objectives for Dr Maslovskiy, which were fully aligned to the Board's strategy. The bonus objectives and the outcome are provided in the table below. The maximum bonus opportunity was 100% of salary, and target bonus was 50% of salary. The performance targets and actual achievement during the year, and the resulting bonus outcome, are set out in the table below.

**2018 annual bonus objectives - for Chief Executive Officer**

| Objective | Weighting (% of max) | Target | Stretch | Actual outturn achieved | Bonus payable (% of max) |
|---|---|---|---|---|---|
| **Strategic** | | | | | |
| Construction of POX – expenditure | 40% | 2018 total project expenditure <105% of budget | 2018 total project expenditure in line with budget | Expenditure in line with budget | 40% |
| Construction of POX – commissioning | 40% | Hot commissioning by end December 2018 | Hot commissioning by end November 2018 | Hot commissioning achieved in November 2018 | 40% |
| **Operational** | | | | | |
| Total Cash Costs | 5% | =/<US$800oz | =/<US$760oz | US$786oz | 3.375% |
| Gold production | 5% | =/>400,000oz | =/>420,000oz | 422,000oz | 5% |
| **IRC** | | Resolving the guarantee provided to ICBC in respect of IRC's project finance facility | | Achieved – see pages 6 and 29 | 5% |
| **Health & Safety** | 5% | <3.0 | =/<2.5 | 2.5 | 5% |
| **Total** | **100%** | | | | **98.375%** |

c.75% of the total bonus payable of £324,654, will be paid in cash with the remaining c.25% payable in the form of a Deferred Bonus Award. The Deferred Bonus Award will be granted following the publication of the 2018 Annual Report, and will vest after one year subject to the continued employment of the individual. Mr Ermolenko did not receive a bonus for the period that he was a Director. Mr Maruta and Mr Deniskin did not receive an annual bonus for 2018.

**LTIP**
Due to the complete change in the membership of the Remuneration Committee on 29 June 2018, it was agreed that no grant of Performance Share Awards should be made under the Long-Term Incentive Plan during 2018 until the new Board had been able to assess the Company and the Committee had been able to consider the remuneration structure and the appropriate performance conditions.

**Chairman and Non-Executive Director remuneration (audited information)**
The fees paid to Sir Roderic Lyne, Non-Executive Chairman from his date of appointment and to Mr Ian Ashby since his date of retirement as Non-Executive Chairman and to the Company's Non-Executive Directors, in respect of the financial years ended 31 December 2018 and 31 December 2017 are as follows:

| | Total fees £ | | Total fees US$ | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Non-Executive Directors** | | | | |
| Roderic Lyne[1] | 75,577 | – | 104,296 | – |
| James W Cameron Jr[2] | 15,865 | – | 21,894 | – |
| Damien Hackett[2] | 15,865 | – | 21,894 | – |
| Robert Jenkins[1,7] | 42,827 | 46,250 | 59,101 | 59,612 |
| Harry Kenyon-Slaney[3] | 11,346 | – | 15,658 | – |
| Bektas Mukazhanov[4] | 32,115 | – | 44,319 | – |
| **Former Non-Executive Directors** | | | | |
| Ian Ashby[5] | 75,000 | 79,038 | 103,500 | 101,873 |
| Bruce M. Buck[5] | 45,000 | 47,423 | 62,100 | 61,124 |
| Adrian Coates[5] | 25,000 | N/A | 34,500 | – |
| Garrett Soden[5] | 42,500 | 44,788 | 58,650 | 57,728 |
| Vladislav Egorov[6] | 0 | 0 | 0 | 0 |
| Alexander Green[7] | – | 37,500 | – | 48,334 |
| Andrew Vickerman[7] | – | 41,250 | – | 53,167 |
| **Total** | **381,095** | **296,249** | **525,911** | **381,838** |

1. *Sir Roderic Lyne and Mr Robert Jenkins were appointed as Non-Executive Chairman and Independent Non-Executive Director on 29 June 2018 respectively.*
2. *Messrs James W Cameron Jr and Damien Hackett were appointed as Independent Non-Executive Directors on 15 October 2018.*
3. *Mr Harry Kenyon-Slaney was appointed as an Independent Non-Executive Director on 7 November 2018.*
4. *Mr Bektas Mukazhanov was appointed as a Non-Executive Director on 8 February 2018 and departed as a Director on 8 June 2018, he was re-appointed on 27 July 2018. The remuneration shown relates to the period from 27 July 2018 to 31 December 2018. Mr Mukazhanov did not receive any fee for his period as a Director of the Company from 8 February 2018 to 8 June 2018.*
5. *Messrs Ian Ashby, Bruce M. Buck, Adrian Coates and Garrett Soden were not re-elected by shareholders at the 2018 AGM held on 29 June 2019 and accordingly retired as Directors on that date.*
6. *Mr Egorov retired as a Director on 1 January 2018.*
7. *Messrs Alexander Green, Robert Jenkins and Andrew Vickerman were not re-elected by shareholders at the 2017 AGM held on 22 June 2017 and accordingly retired as Directors on that date.*

During 2018, 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. The Chairman of the Remuneration Committee is entitled to an additional fee of £7,500 per annum.

Mr Jenkins has not accepted a fee for his Chairmanship of the Remuneration Committee during the period 29 June 2018 to 31 December 2018.

**Payments for loss of office (audited)**
The table below sets out the treatment in relation to Mr Roman Deniskin, Chief Executive Officer, who was not re-elected as a Director at the Annual General Meeting of the Company held on 29 June 2018 and therefore retired from the Board on that date (the 'Termination Date'). Under the terms of Mr Deniskin's service agreement with the Company, failure to be re-elected as a Director at the Annual General Meeting caused Mr Deniskin's employment with the Company as Chief Executive Officer to terminate on the Termination Date. Such termination was in breach of his service agreement with the Company effective from 16 April 2018 (the 'Service Agreement') and without prejudice to any claim for damages in respect of such breach.

The remuneration arrangements in respect of Mr Deniskin's departure, set out below, were approved by the Company's Remuneration Committee, in line with the Company's Remuneration Policy.

Under the Service Agreement Mr Deniskin was entitled to 6 months' notice of termination and, as at the Termination Date, received an annual basic salary of £700,000. However, Mr Deniskin entered into an agreement with the Company under which he received a lump sum payment of £160,100 in full and final settlement of any and all claims he may have against the Company. All sums payable to or in respect of Mr Deniskin were subject to such deductions as the Company was required by law to make.

| Former Chief Executive Officer | Payment in lieu of notice | Payment in settlement of any and all claims | Total |
|---|---|---|---|
| Roman Deniskin | £160,000 | £100 | £160,100 |

Mr Deniskin had no outstanding awards under the Company's Long-Term Incentive Plan.

Payment of salary and all other benefits (including bonus) ceased with effect from the Termination Date.

Mr Maruta resigned as a Director on 31 March 2018. He did not receive a payment for loss of office. As at the date of Mr Maruta's resignation 179,017 shares the subject of the Deferred Bonus Award made to Mr Maruta on 1 August 2017 lapsed with the balance of 358,032 share vesting. The value of these shares on 31 March 2018 was £25,492.

Upon the appointment of Mr Deniskin as Chief Executive Officer, Mr Ermolenko reverted to his former role as General Director MC Petropavlovsk. He did not receive any payment for loss of office.

**Payments to past Directors (audited)**
There were 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.

## Implementation of Remuneration Policy in 2019

The section below sets out a summary of how the proposed Remuneration Policy will be implemented for the year ending 31 December 2019.

**Executive Directors Salary**
The Remuneration Committee reviewed the Chief Executive Officer's salary and determined that no salary increase should be awarded for the year commencing 1 January 2019.

**Annual bonus**
The maximum annual bonus opportunity for the Chief Executive Officer for the 2019 financial year will remain 100% of salary. The target bonus is 37.5% of salary; bonuses will be payable on a straight-line basis between target and stretch.

The Committee has approved the following bonus targets for the Chief Executive Officer:

| Objective | Weighting (% of max) | Payable at Target | Payable at Stretch |
|---|---|---|---|
| POX Performance | 50% | 25% | 50% |
| Financial | 25% | N/A | 25% |
| Gold Production | 20% | 10%<br>Achievement of budgeted production | 20%<br>Achievement of =/+5% of budgeted production |
| Health & Safety | 5% | 2.5%<br>Achievement of approved LTIFR target | 5%<br>2019 LTIFR 5% or more below approved target |
| Total | 100% | 37.5% | 100% |

As was the case last year, full details of the specific targets have not been disclosed in advance particularly for the first two bonus objectives detailed above, due to their commercial sensitivity. The financial objective is a single measure that is either achieved or not achieved. Hence there is no performance range. Full retrospective disclosure of the specific targets and performance against them will be provided in the 2019 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 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 2019, 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 applicable 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 after payment.

**LTIP**
The Committee intends to grant performance share awards under the LTIP following the announcement of the results for the year ended 31 December 2018.

Dr Maslovskiy will receive a Performance Share Award over shares worth 100% of salary. The award will vest based upon the satisfaction of performance targets over a three-year performance period. The award will be subject to a full two-year post vesting holding period.

The targets to be applied to this award are as follows:

| TSR Outperformance (70%)<br>TSR vs. TSR of a bespoke Gold Mining Index | Balanced Scorecard (30%) Strategic | |
|---|---|---|
| 25% for TSR equal to median<br>100% for Median +10% p.a. or above | 1. Construction and launch of a flotation plant at Pioneer | 20% |
| | 2. Start of operations at the Elginskoye deposit, preparation for a Feasibility Study of permanent conditions and protection of reserves in the State Committee of Mineral Reserves | 5% |
| | 3. Preparation of technical documentation and the start of construction of the 3rd phase of the flotation on Malomir | 5% |

The constituents of the bespoke Gold Mining Index will be announced at the date of the award together with more detail on the three strategic targets.

**Chairman**

The Non-Executive Chairman's fee for 2019 has remained unchanged from 2018 levels. The Board approved an increase of c.6.7% in the fee payable to the Non-Executive Directors effective from 1 January 2019, from £75,000 to £80,000. This is the first time that fees have been reviewed since May 2015 when fees were reduced by c.18.5%. No increase was made to the additional fee for the Audit Committee or Remuneration Committee Chair or for the position of Senior Independent Director. A summary of fees is set out below.

| | Fees 2019 |
|---|---|
| Non-Executive Chairman fee | £150,000 |
| Non-Executive Director base fee | £80,000 |
| Additional Senior Independent Director fee | £7,500 |
| Additional Audit Committee Chairman fee | £10,000 |
| Additional Remuneration Committee Chairman fee | £7,500 |

**Percentage change in remuneration of the Chief Executive Officer**

The table below shows the percentage change in Chief Executive Officer remuneration from the prior year compared to the average percentage change in remuneration for the Group's Executive Committee members. Given that the Group operates in a number of diverse locations and its employees cover a wide range of roles, the majority of whom are operational employees based at the Group's mining related business operations in the Far East Amur Region of Russia and also include geologists, technicians at the Group's laboratories and functional staff at the Group's offices in Blagoveshchensk, Moscow and London, the Committee considers that taking the Executive Committee as a reference for the purposes of comparing Chief Executive Officer pay against wider employee pay provides a more useful and meaningful comparison than using pay data for all employees.

| | Percentage change: 2018[1] vs. 2017[2] | |
|---|---|---|
| Item | Chief Executive Officer | Executive Committee |
| Base salary | 6.4% | (15.1%) |
| Taxable benefits | 0% | 33.6% |
| Annual bonus | 471.7% | 223% |

1. *For 2018, based on the sum of remuneration paid to:*
   - *Mr Sergery Ermolenko from 1 January to 16 April*
   - *Mr Roman Deniskin from 16 April to 29 June*
   - *Dr Pavel Maslovskiy from 29 June to 31 December*
2. *For 2017, based on the sum of remuneration paid to:*
   - *Dr Pavel Maslovskiy from 1 January to 17 July*
   - *Mr Sergey Ermolenko from 18 July to 31 December*

### Relative importance of the spend on pay

The table below shows the movement in spend on staff costs between the 2018 and 2017 financial years, compared to profit before tax and dividends:

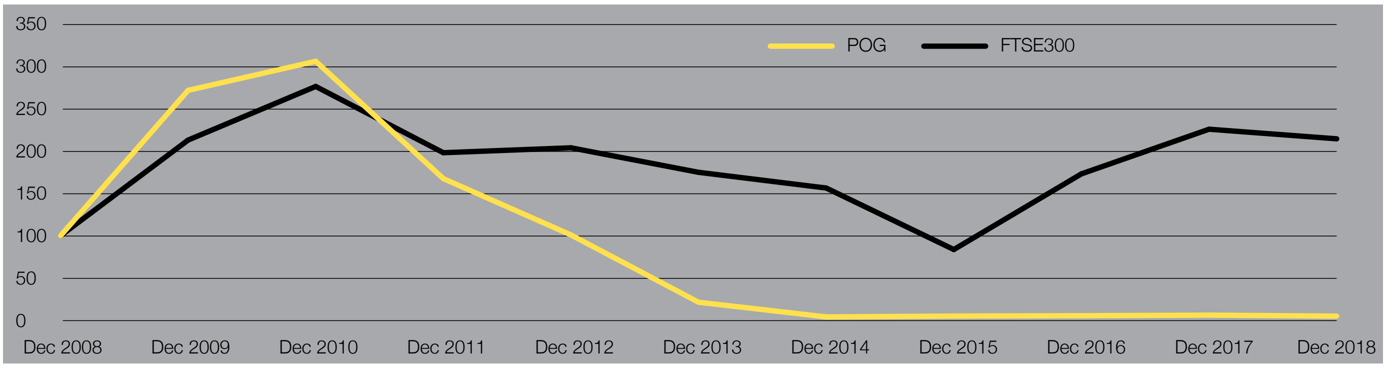
| | 2018 | 2017 | % change |
|---|---|---|---|
| Staff costs | US$101.5 | US$103.63 | (2.06)% |
| Average number of staff | 8,681 | 8,519 | 1.9% |
| Profit before tax | US$82.4m | US$48.9m | 68.5% |
| Dividends | – | – | – |

There were no dividends paid or declared during the years ended 31 December 2018 and 31 December 2017 and no share buy-backs were undertaken.

### Total shareholder return

This graph shows the Company's TSR performance relative to the FTSE350 Mining Index over a period of ten years to 31 December 2018. 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 ten financial years.

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Chief Executive Officer during the year[a] | Dr Maslovskiy | | Mr Ermolenko | | | Mr Ermolenko/ Dr Maslovskiy | Dr Maslovskiy | | Dr Maslovskiy/ Mr Ermolenko | Mr Ermolenko/ Mr Deniskin/ Dr Maslovskiy |
| Total remuneration £ | 1,138,339[b] | 1,025,991 | 1,569,190 | 661,000 | 400,000 | 977,605 | 655,000 | 786,000 | 584,583 | 622,123 |
| Annual bonus (%) | 70%[b] | 45% | 94.4% | 45.5% | 0% | 100% | 0%[c] | 20% | 25% | 98.375%[d] |
| LTIP vesting (%) | 0% | 0% | 0% | 0% | 0% | n/a | n/a | n/a | n/a | n/a |

a. *Dr Pavel Maslovskiy resigned as Chief Executive Officer on 20 December 2011 and Mr Sergey Ermolenko was appointed as Chief Executive Officer on that date. Mr Ermolenko stepped down as Chief Executive officer on 5 November 2014 and Dr Maslovskiy was appointed as Chief Executive Officer on that date. Dr Maslovskiy resigned as Chief Executive Officer on 17 July 2017 and Mr Ermolenko was appointed as Interim Chief Executive Officer on 18 July 2017.*

*Mr Ermolenko resigned as Chief Executive Officer on 16 April 2018 and Mr Roman Deniskin was appointed as Chief Executive Officer on that date. Mr Deniskin was not re-elected by shareholders at the 2018 Annual General Meeting. Accordingly, Mr Deniskin ceased to be a Director and Chief Executive Officer on 29 June 2018 and Dr Maslovskiy was 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.*

d. *Dr Maslovskiy received a bonus of 98.375% of his salary for the period 1 July 2018 to 31 December 2018.*

## Directors' shares and share plan interests

### Directors' share interests

The interests of the Directors who held office during the period from 1 January 2018 to 31 December 2018 in the ordinary shares of the Company, together with details of changes to shareholdings between 1 January 2019 and 24 April 2019, are as set out in the table below.

| Director | | Shares held as at 1 January 2018 or date of appointment if later | Shares held as at 31 December 2018 or date of retirement if earlier | Shares held as at 24 April |
|---|---|---|---|---|
| **Current Directors:** | | | | |
| Sir Roderic Lyne [1] | | 0 | 0 | 0 |
| Dr Pavel Maslovskiy [1] | | 0 | 0 | 0 |
| Mr James W Cameron Jr [2] | | 0 | 0 | 0 |
| Mr Damien Hackett [2] | | 0 | 0 | 0 |
| Mr Robert Jenkins [1] | | 0 | 0 | 0 |
| Mr Bektas Mukazhanov [3] | For the period 8 February 2018 to 8 June 2018 | 0 | 1,192,406 | 1,192,406 |
| | For the period 27 July 2018 to 24 April 2019 | 1,192,406 | 1,192,406 | 1,192,406 |
| Mr Harry Kenyon-Slaney [4] | | 0 | 0 | 0 |
| **Former Directors:** | | | | |
| Mr Ian Ashby [5] | | 0 | 0 | N/A |
| Mr Bruce M. Buck [5] | | 0 | 0 | N/A |
| Mr Adrian Coates [6] | | 0 | 142,255 | N/A |
| Mr Roman Deniskin [7] | | 0 | 0 | N/A |
| Mr Vladislav Egorov [8] | | 0 | 0 | N/A |
| Mr Sergey Ermolenko [9] | | 318,247 | 318,247 | N/A |
| Mr Andrey Maruta [10] | | 33,925 | 33,925 | N/A |
| Mr Garrett Soden [5] | | 0 | 0 | N/A |

1. *Appointed as a Director on 29 June 2018*
2. *Appointed as an Independent Non-Executive Director on 15 October 2018.*
3. *Appointed as a Non-Executive Director on 8 February 2018, departed the Board on 8 June 2018 and was re-appointed as a Director on 27 July 2018. These shares are beneficially owned by JSC Fincraft Investment House.*
4. *Appointed as an Independent Director on 7 November 2018.*
5. *Retired as a Director on 29 June 2018.*
6. *Appointed as an Independent Non-Executive Director on 16 February 2018 and retired as a Director on 29 June 2018.*
7. *Appointed as a Director and as Chief Executive Officer on 16 April 2018 and retired as a Director on 29 June 2018.*
8. *Resigned as a Non-Executive Director on 1 January 2018.*
9. *Resigned as Interim Chief Executive Officer on 16 April 2018.*
10. *Resigned as Chief Financial Officer and a Director on 31 March 2018.*

# Directors' Remuneration Report continued

**Outstanding share awards**
With the exception of the Deferred Bonus Awards made to Messrs Ermolenko and Maruta in respect of 50% of their 2016 bonus, and to Mr Ermolenko in respect of his 2017 bonus, there were no LTIP Awards outstanding to any Director as at 1 January 2018 and no LTIP Awards were made to any Director during the year.

| Director | Date of award | At 1 January 2018 | Granted during the year | Face value at grant | Lapsed during the year | At 31 December 2018 or date of resignation if earlier | Normal vesting date |
|---|---|---|---|---|---|---|---|
| Sergey Ermolenko | 6 April 2018 | – | 707,173 | £50,563 | – | 707,173 | 6 April 2019 |
| Sergey Ermolenko | 1 August 2017 | 441,876 | – | £32,500 | – | 441,876 | 1 August 2018 |
| Andrey Maruta | 1 August 2017 | 537,049 | – | £39,500 | 179,017 | 358,032 | 1 August 2018 |

Mr Ermolenko received a Deferred Bonus Award on 6 April 2018, under the rules of the Long-Term Incentive Plan. The award was in respect of 12.5% of Mr Ermolenko's salary, representing 50% of the bonus received by Mr Ermolenko in respect of the year ended 31 December 2017, as disclosed in the 2017 Directors' Remuneration Report.

The number of ordinary shares awarded was based on the mid-market closing share price of Petropavlovsk PLC ordinary shares on 6 April 2018, being 7.15 pence.

Mr Ermolenko resigned as Interim Chief Executive Officer on 16 April 2018, returning to his previous role of General Director of Management Company Petropavlovsk. Mr Ermolenko's award vested/will vest in accordance with the Rules of the LTIP, given his continued employment with Petropavlovsk.

Mr Maruta resigned as Chief Financial Officer and as a Director of the Company on 31 March 2018. In accordance with the rules of the LTIP, 179,017 shares which related to the Deferred Bonus Award granted to Mr Maruta for the year ended 31 December 2016 lapsed on his date of resignation.

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

Robert Jenkins

**Robert Jenkins**
Chairman, Remuneration Committee
24 April 2019

# Directors' Report

For the year ended 31 December 2018

## This report

This report includes certain disclosure which are required by law to be included in the Directors' Report.

In accordance with the Companies Act 2006, the following items have been reported in other sections of this Annual Report and are included in this Directors' Report by reference:

– The Strategic Report on pages 1 to 95 gives a fair view of the business and an indication of likely future developments and fulfils the requirements set out in section 414C of the Companies Act 2006. The Strategic Report includes details of work carried out by companies within the Group in relation to exploration, development and analysis work necessary to support the Group's activities and its strategy;

– Details of significant events since the balance sheet date are contained in note 10 to the financial statements;

– Details of the Group's approach to financial risk management, its objectives and policies and exposure to risk are described in notes 18 and 27 to the financial statements and in the Principal Risks and Mitigation section on pages 16 to 33;

– Information about the use of financial instruments by the Company and its subsidiaries is given in note 27 to the financial statements;

– Details of the Group's corporate governance arrangements and its compliance with the UK Corporate Governance Code (the 'Code') can be found on pages 102 to 109;

– Directors' interests in shares as at 31 December 2018 and any changes thereafter can be found on page 137 of the Directors' Remuneration Report; and

– The Group's disclosure of its greenhouse gas emissions can be found on page 71.

### Directors, Directors' appointment, conflict of interest and Directors' indemnity

**Directors**

The names and biographies of the Directors who held office at the date of this Annual Report are set out on pages 98 and 99.

Changes to the Directors during 2018 and up until the date of this Report are detailed in the table below:

| Name | Appointed | Retired/Resigned | Position |
|---|---|---|---|
| Sir Roderic Lyne | 29 June 2018 | | Non- Executive Chairman |
| Dr Pavel Maslovskiy | 29 June 2018 | | Chief Executive Officer |
| Mr James W Cameron Jr | 15 October 2018 | | Independent Non-Executive Director |
| Mr Damien Hackett | 15 October 2018 | | Independent Non-Executive Director |
| Mr Robert Jenkins | 29 June 2018 | | Independent Non-Executive Director |
| Mr Harry Kenyon-Slaney | 7 November 2018 | | Independent Non-Executive Director |
| Mr Bektas Mukazhanov | 8 February 2018 | 8 June 2018 | Non-Executive Director |
| | 27 July 2018 | | |
| Mr Ian Ashby | 22 June 2017 | 29 June 2018 | Non-Executive Chairman |
| Mr Bruce M. Buck | 22 June 2017 | 29 June 2018 | Independent Non-Executive Director |
| Mr Adrian Coates | 16 February 2018 | 29 June 2018 | Independent Non-Executive Director |
| Mr Roman Deniskin | 16 April 2018 | 29 June 2018 | Chief Executive Officer |
| Mr Sergey Ermolenko | 18 July 2017 | 16 April 2018 | Interim Chief Executive Officer |
| Mr Vladislav Egorov | 22 June 2017 | 1 January 2018 | Non-Executive Director |
| Mr Andrey Maruta | 4 January 2011 | 31 March 2018 | Chief Financial Officer |
| Mr Garrett Soden | 22 June 2017 | 29 June 2018 | Independent Non-Executive Director |

Further details of these changes are provided on pages 102 to 107 of the Corporate Governance Report.

**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 Nominations Committee. A Director appointed by the Board holds office only until the following annual general meeting and is then eligible for election by shareholders. The Company may, in accordance with and subject to the provisions of the Companies Act 2006, by ordinary resolution of which special notice has been given, remove any Director before the expiration of his or her term of office.

In accordance with the requirements of the UK Corporate Governance Code published in July 2018, all eligible directors will stand for election or re-election at the 2019 AGM. Information regarding the appointment of our Directors is included in the Nominations Committee Report on pages 110 and 111.

**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 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 25 to the financial statements on page 195.

**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.

**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 are 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.

**Other statutory disclosures**

**Dividends**
The Directors do not recommend a final dividend in respect of the year ended 31 December 2018. Future decisions regarding the dividend will be based on a number of factors, including market conditions, distributable reserves, liquidity and operational performance. In any event, the payment of dividends by the Company is restricted by covenants in the Petropavlovsk 2010 Limited 9% Guaranteed Convertible Bonds due 2020 and by covenants in the Petropavlovsk 2016 Limited 8.125% Guaranteed Notes due 2022, both of which the Company is the guarantor.

**Employees**
The Group maintains a policy of providing employees with information about the Company and 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.

Further information regarding employment at Petropavlovsk and the Board's engagement with the Group's employees, is provided in the Sustainability section of this Report on pages 72 and 76.

**Modern Slavery and Human Trafficking Statement**
The Company's statement can be found on the Company's website at: http://www.petropavlovsk.net/sustainability/

**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 Sustainability Report on page 77.

**Share capital and related matters**

**Share capital**
At 31 December 2018, the Company had 3,307,151,712 ordinary shares of £0.01 each in issue (2017: 3,303,768,532). Details of the Company's issued share capital and movements in the issued share capital are shown in note 23 to the financial statements on page 193.

**Purchase of own shares**
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 and any other applicable law.

The Company did not seek authority from shareholders to make purchases of its own shares at the 2018 AGM and no such authority will be sought in 2019.

**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.

**Restrictions on voting**
In general, there are no specific restrictions on a 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.

**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 of Association 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.

**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 approval to deal in the Ordinary Shares in accordance with the Company's share dealing rules.

**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 Resolutions relating to the allotment of shares at the 2018 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 £10,900,000, 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; and
- The Directors were granted authority to disapply statutory pre-emption rights over new shares allotted for cash pursuant to the above authority, up to an aggregate nominal value of £1,651,880, equivalent to approximately 5% of the total issued Ordinary Share capital of the Company at the time of passing the resolution.

  The above authority has been exercised during the reporting period. In accordance with the terms of the Company's Long-Term Incentive Plan 3,383,180 Ordinary Shares were allotted on 13 August 2018. Following the allotment, the total issued share capital of the Company increased to 3,307,151,712 Ordinary Shares.

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 2019 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.

**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.

**2019 Annual General Meeting (AGM)**

**Notice of Annual General Meeting**
A separate document, the Notice of Annual General Meeting 2019, convening the AGM of the Company to be held on 13 June 2019 at 11.00 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.

**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, Link Asset Services. This facility can be accessed by visiting www.signalshares.com. CREST members may appoint a proxy or proxies by using the CREST electronic appointment service.

**Electronic copies of the Annual Report and financial statements and other publications**
Copies of the 2018 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.

The Company is committed to reducing paper and improving efficiency in its shareholder communications. From 2020, the Company will no longer be sending proxy cards to shareholders for the annual general meeting unless specifically asked to do so. The Company will provide advice on how to request a paper proxy at the appropriate time.

**Change of control**
The Company is committed to reducing paper and improving efficiency in its shareholder communications. From 2020, the Company will no longer be sending proxy cards to shareholders for the annual general meeting unless specifically asked to do so. The Company will provide advice on how to request a paper proxy at the appropriate time.

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

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

Pursuant to the issue of US$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.

Pursuant to the issue of US$500 million 8.125% Guaranteed Notes due 2022 ('the Loan Notes') issued by Petropavlovsk 2016 Limited on 14 November 2017 and guaranteed by the Company, if any person or group of persons acting in concert gains control of the Company, constituting a Relevant Event (as defined in the Terms and Conditions of the Bonds), the Bondholders have the right to require the redemption of the Loan Notes at 101 per cent. of their principal amount plus accrued and unpaid interest to the date of redemption.

**Information required by UK Listing Rule 9.8.4**
Details of the amount of interest capitalised by the Group during the financial year can be found on page 92 of the Chief Financial Officer's Statement.

There are no other disclosures to be made under Listing Rule 9.8.4.

# Directors' Report continued

For the year ended 31 December 2018

**Significant shareholdings**

Information provided to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DGTRs) is published on a Regulatory Information Service and on the Company's website.

As at 31 December 2018, the Company had received the following disclosures of major holdings of voting rights, pursuant to the requirements of Rule 5 of the DGTR.

| | No of Shares | % interest in voting rights ordinary shares | Financial instruments with similar economic effect to Qualifying Financial Instruments | % of voting rights | Total number of voting rights | % voting rights (as at 31 December 2018) |
|---|---|---|---|---|---|---|
| Fincraft Holdings Ltd [a] | 440,565,485 | **13.32** | 225,674,382 | 6.82 (nominal) | 669,239,867 | 20.24 |
| Sothic Capital European Opportunities Master Fund Limited [b] | 347,534,872 | **10.51** | 14,837,653 | 0.45 (Delta) | 362,372,525 | 10.96 |
| VTB Bank (Deutschland) AG | 300,000,000 | **9.07** | – | – | 300,000,000 | 9.07 |
| D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London) [c] | 256,609,333 | **7.76** | – | – | 256,609,333 | 7.76 |
| Slevin Ltd | 150,517,537 | **4.55** | – | – | 150,517,537 | 4.55 |
| CABS Platform Limited | 150,517,537 | **4.55** | – | – | 150,517,537 | 4.55 |

*(a) The interest in financial instruments with similar economic effect to qualifying financial instruments of Fincraft Holdings Ltd relates to the Group's 9% Convertible Bonds due 2020.*

*(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) D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP DBMMA015 is the full name of the shareholder with respect to the indirect interest over 256,609,333 Ordinary Shares.*

As at 24 April 2019, the Company had received the following disclosures of major holdings of voting rights, pursuant to the requirements of Rule 5 of the DGTR.

| | No of Shares | % interest in voting rights ordinary shares | Financial instruments with similar economic effect to Qualifying Financial Instruments | % voting rights | Total number of voting rights | % of voting rights (as at 24 April 2018) |
|---|---|---|---|---|---|---|
| Fincraft Holdings Ltd [a] | 440,565,485 | 13.32 | 225,674,382 | 6.82 (nominal) | 669,239,867 | 20.24 |
| Sothic Capital European Opportunities Master Fund Limited [b] | 347,534,872 | 10.51 | 14,837,653 | 0.45 (Delta) | 362,372,525 | 10.96 |
| VTB Bank (Deutschland) AG | 300,000,000 | 9.07 | – | – | 300,000,000 | 9.07 |
| D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London) [c] | 256,609,333 | 7.76 | – | – | 256,609,333 | 7.76 |
| Prosperity Capital Management Limited:<br>The Russian Prosperity Fund<br>The Prosperity Cub Fund<br>The Prosperity Quest Fund<br>Prosperity Capital Management SICAV 2384908<br>Ontario Limited | 165,519,276 | 5.00 | – | – | 165,519,276 | 5.00 |
| Slevin Ltd | 150,517,537 | 4.55 | – | – | 150,517,537 | 4.55 |
| Everest Alliance Limited (formerly CABS Platform Limited) [d] | 150,517,537 | 4.55 | – | – | 150,517,537 | 4.55 |

*(a) The interest in financial instruments with similar economic effect to qualifying financial instruments of Fincraft Holdings Ltd relates to the Group's 9% Convertible Bonds due 2020.*

*(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) D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP DBMMA015 is the full name of the shareholder with respect to the indirect interest over 256,609,333 Ordinary Shares.*

*(d) CABS Platform Limited changed its name to Everest Alliance Limited. The Company was notified of the change of name on 7 March 2019.*

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.

## Relationship Agreement

On 30 July 2018, Fincraft Holdings Ltd ("Fincraft") and Mr Kenges Rakishev entered into a relationship agreement with the Company due to Fincraft's position as a significant shareholder of the Company and Mr Rakishev being the sole beneficial owner of Fincraft. Under this relationship agreement Fincraft has the right to appoint a director to the board of the Company, which is currently Mr Bektas Mukazhanov. In addition, Fincraft has provided certain undertakings including in respect of conducting transactions with the Company and exercising its right to vote.

## Accountability & audit

### 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 the 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 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, advances received from customers under prepayment arrangements and external debt.

The Group performed an assessment of the forecast cash flows for the period of 12 months from the date of approval of the 2018 Annual Report and Accounts. As at 31 December 2018, the Group had sufficient liquidity headroom. The Group is also satisfied that it has sufficient headroom under a base case scenario for the period to May 2020. The Group has also performed projections under a layered stressed case that is based on a gold price, which is approximately 10% to 14% lower than the average of the market consensus forecasts, non-refractory gold production approximately 5% lower than projected, and Russian Rouble : US Dollar exchange rate that is approximately 8-9% stronger than the average of the market consensus forecasts. This layered stressed case indicates that mitigating actions will be required to be taken in order to ensure sufficient liquidity for the relevant period to May 2020. This includes sufficient liquidity for the repayment, if necessary, of the Company's US$100 million 9% Convertible Bonds, due in March 2020. The mitigating actions include items within the control of the management, such as cost cutting, reduction of capital and operating expenditure, the deferral of prepayment settlements as well as working capital management.

As at 31 December 2018, the Group has guaranteed the outstanding amounts IRC owed to ICBC. The outstanding loan principal was US$169 million as at 31 December 2018. On 19 March 2019, the ICBC Facility was fully refinanced by the loans from Gazprombank. The Group has provided a guarantee in respect of IRC's new US$240 million facility, of which approximately US$233 million has been drawn down to date. The Gazprombank Facility is subject to an initial US$160 million guaranteed by the Group. 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 projections demonstrate that IRC expects to have sufficient working capital liquidity over the next 12 months and expects to meet its obligations under the Gazprombank Facility. If a missed repayment under debt or guarantee obligations occurs, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

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 2018 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

### Viability Statement

*Context and Period of Assessment*

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.

The Board assesses and keeps under review the longer term viability of the Group in the context of its strategy and long-term mining plan, the financial model reflecting it and the principal related risks which could potentially jeopardise this. The Board has selected a five year period, from 2019 to 2023, for assessing the Group's longer term viability in order to reflect the long term nature of the Group's business as well as the term of the Company's US$500 million 8.125% Guaranteed Notes, due 14 November 2022.

The Group's strategy, as set out in the Strategic Report on pages 12 to 13, is focused on the satisfactorily profitable development of both its non-refractory and refractory gold Ore Reserves and Mineral Resources. This projects sustainable annual gold production rising over the selected period of viability assessment from a current 450 Koz to approaching 600 Koz (including processing of concentrate from third party producers).

In assessing the Group's longer term viability, the Board has given consideration to and taken into account the Group's identified principal risks, as set out and reviewed on pages 16 to 33 as well as the following key considerations:

*Reserves, Resources and Production*

The Group's sizable Ore Reserves and Mineral Resources, the high mineral prospectivity of the region in which it operates and its mining exploration capability, underpin the long-term sustainability of its business and its financial viability into the longer term. The Group's existing JORC Ore Reserves are the basis of its long term-mine plan, business projections and longer term viability statement. These in turn also reflect substantiated assumptions, in particular, about the grade and stripping ratios of its Ore Reserves. For these reasons, the availability of Ore Reserves in line with the Group's business model into the longer term is not assessed as a critical risk area.

Full utilisation of the Group's new 400-500k tonne annual capacity for the four vessels POX Hub gold concentrate processing facility is a key part of its business plan into the longer term.  This assumes the expansion of the Group's own gold concentrate annual production capacity from a current 120 /130k tonnes to c.350 k tonnes by 2022, with full utilisation of its POX Hub facility being achieved also through the purchase and processing of gold concentrate from third party producers. There are a number of such producers in the Eastern part of and across Russia and these are well known to the

Group. The Board's longer term viability assessment assumes that the Group will be capable of purchasing such gold concentrate as it may require and on satisfactory terms in order to meet the Group's business plan objectives. While this is an area of risk, the Board considers that it should not prove critical. This key judgement is based on the Group's contacts to date with third party gold concentrate producers, including initial arrangements for the purchase of concentrate from them.

The Board's assessment of the Group's longer term viability also assumes that its POX Hub facility will operate satisfactorily, including in processing cost terms. However the Board recognises this as a key possible risk area. While the initial operational performance of the Group's POX Hub facility has been successful and has validated its design, it is still in its testing and ramp-up phase.

In assessing how the Group's principal risks might impact upon its future gold production, the Board considers that, other than the identified financial and country related risks, all other risks should be capable of being satisfactorily controllable by management. Accordingly, the Group's longer term viability financial model does not reflect any sensitivities in respect of these.

*Financial Model and Risks*

The Group's business and financial model shows its projected capital and exploration expenditure over the period 2019 - 2023 being fully funded out of cash flow.

The Board's longer term viability assessment, based on the Group's business and financial model, also shows that the Company should be able to fund out of cash flow, and the financial resources expected to be available to it, both the repayment of its US$ 100 million 9% Convertible Bonds, due 18 March 2020, and its US$500 million 8.125% Guaranteed Notes, due 14 November 2022.

The Group's business and financial model and the Board's assessment of its longer term viability reflects, in particular external assumptions about the gold price, based on consensus forecasts, and the Rouble US dollar exchange rate. The Board considers the assumptions regarding these to be reasonable, but highlights these as principal external risk factors which could otherwise impact upon the Group's longer term viability, with the gold price and the exchange rate risk being of significance in that around 80% of the Group's costs are Rouble based.

In the Board's assessment of the Group's longer term viability, it has taken account of stress test sensitivity analyses undertaken of the Group's business and financial model. These stress test the impact of external principal risk factors in relation to future gold price and RUB/USD exchange rate, as these may affect negatively the Group's revenues, costs and financial performance. The Board's assessment of the Group's longer term viability, takes into account, in particular, in a stress tested scenario, that the Company may need to refinance, at least partially, its US$500 million 8.125% Guaranteed Notes, due 14 November 2022, an assumption which the Board considers reasonable.

In assessing the Company's longer term viability, the Board has also given consideration to the risks relating to its associate, IRC, for which the Company provides a guarantee to Gazprombank in relation to its loan facility with K&S, a subsidiary of IRC. Following the refinancing of IRC's bank debt with Gazprombank, the Board considers that the risks for the Company in its associated guarantee of this have been significantly reduced. Based on consideration and analysis of IRC's financial performance in relation to its bank debt obligations, the Board's assessment of the Company's longer term viability accordingly assumes that IRC's future performance, in the context of the risks relating to it, should not jeopardise this.

**Conclusion**

Based on their assessment, as outlined above, the Directors confirm they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due during the period to 31 December 2023. 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.

**Information to the independent auditors**

The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and that each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

**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.

**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 position and 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 ACIS**
Company Secretary
24 April 2019

# Directors' Responsibilities Statement

For the year ended 31 December 2018

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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**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; and
- 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 23 April 2019 and is signed on its behalf by:

**Sir Roderic Lyne**
Non-Executive Chairman
24 April 2019

**Dr Pavel Maslovskiy**
Chief Executive Officer
24 April 2019

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

For the year ended 31 December 2018

**Report on the audit of the financial statements**

**Opinion**
In our opinion:

- The financial statements of Petropavlovsk PLC (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 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 Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 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.

We have audited the financial statements which comprise:

- The Group Statement of Profit and Loss;
- The Group Statement of Comprehensive Income;
- The Group and Company Statements of Financial Position;
- The Group and Company Statements of Changes in Equity;
- The Group Statement of Cash Flows;
- The related notes 1 to 33 to the Group financial statements; and
- The related notes 1 to 10 to the 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 Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

**Basis for opinion**
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

| Summary of our audit approach | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>– Going concern;<br>– Impairment of property, plant and equipment;<br>– Valuation of the IRC investment;<br>– Accuracy and completeness of deferred tax; and<br>– Accounting for the guarantee of IRC's debt.<br><br>Our assessment of the Group's key audit matters is consistent with 2017, except for:<br>– The inclusion of accuracy and completeness of deferred tax due to the complexity of the calculations and the error identified relating to the prior year; and<br>– The accounting for the guarantee of IRC's debt because<br>a) The accounting is governed by IFRS 9 Financial Instruments which was adopted on 1 January 2018;<br>b) The valuation for the liability and related fee income asset is highly complex; and<br>c) The credit risk associated with IRC at the 2018 year end has significantly increased the value of the liability recognised.<br>– The valuation of the IRC investment risk was previously referred to as accounting for the investment in IRC |
| **Materiality** | We used a materiality of $8.5 million for our audit of the Group financial statements. This represents less than 2% of net assets. |

| Summary of our audit approach | |
|---|---|
| **Scoping** | Our Group audit included a full scope audit of all operating mines and service entities and specific procedures in relation to certain exploration assets, cost of sales and inventory balances. Our full scope and specific audit procedures covered 96% of the Group's net assets and 99% of the Group's revenue. |
| **Significant changes in our approach** | We have performed a revised risk assessment considering the key developments in the year, the Group's business risks and its control environment. Aside from the new key audit matters identified as noted above, there were no significant changes in our approach. |

## Conclusions relating to going concern, principal risks and viability statement

### Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

### Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- The disclosures on pages 16 to 33 that describe the principal risks and explain how they are being managed or mitigated;
- The directors' confirmation on page 144 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; or
- The directors' explanation on page 143 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 are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

For the year ended 31 December 2018

| Going concern | |
|---|---|
| **Key audit matter description** | The Group's convertible bonds mature on 18 March 2020, requiring a repayment of $100 million.<br><br>The Group's forecasts indicate that it will maintain sufficient liquidity under both its base case and mitigated downside scenarios. The critical assumptions in those forecasts relate to the successful ramp-up of the POX Hub, the gold price and the Russian Rouble – US Dollar exchange rate. The Group's key mitigating actions include the deferral of uncommitted exploration and evaluation activity, reduced mining of refractory ores given the existing inventory stockpiles and exercising its contractual right to defer the repayment of the advances received during the year under its customer prepayment arrangements.<br><br>The Group continues to guarantee the borrowings of its Hong Kong-listed associate, IRC Limited ("IRC"), which were $169 million at 31 December 2018. On 12 March 2019, IRC completed a refinancing, repaying the previous facility and the temporary financing advanced by the Group, in exchange for a new facility with an extended repayment profile. To achieve this the Group was required to provide the IRC with a revised guarantee, which at inception attached to $160 million of IRC's debt.<br><br>There are no covenant tests applicable to the Group during the forecast period. IRC is subject to covenant tests under its refinanced debt agreement, albeit with less stringent terms than its previous debt facility.<br><br>Please refer to notes 2 and 3 in the Group financial statements and the Audit Committee report on page 116 for further details |
| **How the scope of our audit responded to the key audit matter** | We challenged the key assumptions in management's forecast cash flows for the 12 month period from the date of the Annual Report by:<br>– Evaluating the design and implementation of key controls around the going concern and forecasting process;<br>– Considering the Group's historical forecasting accuracy;<br>– Benchmarking the forecast gold price and exchange rate assumptions with recent analyst forecasts;<br>– Engaging our mining consultants to assess management's production plan and in particular challenge the modelled ramp-up profile for the POX Hub;<br>– Testing the mechanical accuracy of the Group's cash flow model;<br>– We challenged the extent to which management's identified mitigating actions were within their control and reviewing the contractual terms of the prepayment arrangements;<br>– Reviewing the new facility and guarantee agreements to determine whether the key terms were reflected in the Group and IRC forecasts;<br>– Evaluating the risk of default by IRC on the facility guaranteed by the Group by i) reviewing the work performed by IRC's auditors to challenge the critical assumptions in the cash flow forecasts prepared by IRC management; ii) understanding the key operational risks by speaking directly with the independent Competent Person who reviewed IRC's mine plan and reserves statement; and iii) performing our own assumption benchmarking procedures, including through comparison of the forecast iron ore price to recent analyst forecasts; and<br>– Assessing whether the going concern disclosures in the financial statements are appropriate. |
| **Key observations** | We concur with management's decision to adopt the going concern basis and consider the related disclosures appropriate. |

| Impairment of property, plant and equipment | |
|---|---|
| **Key audit matter description** | The carrying value of property, plant and equipment ("PP&E") at 31 December 2018 was $1,097 million (2017: $938 million). The Group had previously recognised impairments at each of its three mining operations and, following full impairment valuation exercises on all three cash generating units ("CGUs"), reversals were recognised in the year ended 31 December 2018 at Malomir of $91 million and at Albyn of $11 million.<br><br>Determining the recoverable amount for the Group's CGUs requires management to make significant judgements in particular regarding the key assumptions of gold price, production volumes and exchange rates (a key driver of operating costs) over the lifetime of the operations and the discount rate.<br><br>In previous years management has not reversed impairments as a result of continued uncertainty over the ramp up of the POX Hub. Given the first gold pour from the POX hub was achieved in December 2018 with ramp up ahead of schedule, these risks appear to have diminished and management has concluded it is appropriate to recognise an impairment reversal to its PP&E.<br><br>Another key judgement was management's determination that an active market for gold concentrates does not exist such that operations were assessed to comprise three CGUs, Albyn, Malomir and Pioneer, with certain joint and corporate assets allocated to them.<br><br>Please refer to note 6 to the Group financial statements and the Audit Committee report on page 117 for further details. |
| **How the scope of our audit responded to the key audit matter** | We challenged management's recoverable amount calculations and decision to recognise the above impairment reversals, by:<br>– Evaluating the design and implementation of key controls around the mine planning and forecasting process;<br>– Considering the Group's historical forecasting accuracy;<br>– Challenging management's determination that the operations comprise three CGUs and its assessment of the gold concentrate market including thorough independent research, consistency with the Group's historical decision making, review of its concentrate contractual arrangements and future plans;<br>– Benchmarking gold prices and foreign exchange rates against analyst forecasts;<br>– Engaging our mining consultants to perform site visits at all three operations in order to support our independent challenge of the production volumes, mine plans, the reserves and resources, and the modelling of the operational risks in the cash flows, in particular in respect of the POX Hub ramp up;<br>– Involving valuation specialists to benchmark the 8.5% post tax real discount rate;<br>– Testing the mechanical accuracy of the Group's cash flow model;<br>– Evaluating the sensitivity analysis performed by management and performing our own; and<br>– Evaluating whether the key accounting judgement and critical accounting estimate disclosures were appropriate. |
| **Key observations** | The assumptions made by management when determining the mining assets' recoverable amounts fell within a reasonable range.<br><br>We concluded that the carrying value of PP&E, the impairment reversals recognised and disclosures made are appropriate. |

| Valuation of the IRC investment | |
|---|---|
| **Key audit matter description** | The Group has to apply judgement in determining the recoverable amount for its 31.1% shareholding in IRC Ltd, a Hong Kong-listed iron ore producer. During the year ended 31 December 2018, there had been a significant decline in the IRC share price which represented an impairment indicator and a Group level impairment was recognised of $5.7 million giving a carrying value of $85.1 million as at 31 December 2018 (2017: $70.9 million).<br><br>Management determined the value in use of the investment based on IRC's audited balance sheet at 31 December 2018, with adjustments made principally to:<br>(i) reflect the present value of future cash outflows such as corporate costs; and<br>(ii) the valuation effect of the substantially complete IRC refinancing which was accordingly not yet reflected in IRC's year end balance sheet .<br><br>IRC management had performed an impairment analysis on the PP&E recognised in its financial statements and had recognised an impairment reversal of $90.5 million (Group share: $28.1 million) in relation to the K&S mine such that the reported PP&E carrying values approximated its fair value.<br><br>The key judgements related to the iron ore, discount rate and production volume assumptions made by IRC management in its valuation of the PP&E and the completeness and accuracy of the adjustments recognised by the Group.<br><br>Please refer to note 14 to the Group financial statements and the Audit Committee report on page 117 for further details. |
| **How the scope of our audit responded to the key audit matter** | We challenged management's valuation and accounting judgements by:<br>– Evaluating the design and implementation of key controls over its valuation of its associate, based on the information available to it;<br>– Challenging the key IRC valuation assumptions, in particular in relation to the iron ore price assumptions, the K&S ramp up profile, the life of mine production assumptions and the discount rate through performing our own assumption benchmarking procedures including the comparison of the forecast iron ore price to recent analyst forecasts and the calculation of reasonable discount rate range by our valuation specialists.<br>– Understanding the key operational risks and production forecasts by speaking directly with the independent competent person who reviewed IRC's mine plan and reserves statement;<br>– Challenging management's methodology for determining the Group level valuation adjustments, in particular the advanced nature of the refinancing such that it was appropriate to recognise in the valuation and the calculation of future IRC corporate cash costs; and<br>– Challenging the appropriateness of the key estimation disclosures and critical accounting disclosures. |
| **Key observations** | We consider that the carrying value of the Group's investment is within the reasonable range. |

| Accuracy and completeness of deferred tax | |
|---|---|
| **Key audit matter description** | The Group's deferred tax calculations reflect the additional complexity of the key operating entities having a US dollar functional currency for determining the accounting base but have a Russian Rouble tax base. In addition the Group has historical losses for which the recognition of deferred tax asset will often require a judgement of the forecast profitability of the Group.<br><br>Management and Deloitte have identified prior year errors in relation to the calculation and recognition of deferred tax assets ("DTA") and deferred tax liabilities ("DTL") which are described in note 2. Given these errors, the complexity of the calculations and the material size of the DTL balance recognised, we have identified the accuracy and completeness of deferred tax as a new key audit matter in the current year.<br><br>Please refer to note 2.1 to the Group financial statements and the Audit Committee report on page 119 for further details. |
| **How the scope of our audit responded to the key audit matter** | We challenged management's significant assumptions around the accuracy and completeness of deferred tax by:<br>– Evaluating the design and implementation of management's key controls in relation to its deferred tax calculations;<br>– Reviewing deferred tax balances, which arise primarily in Russia, and the associated consolidation adjustments and challenging management's judgements on whether or not these items should have been recorded;<br>– Arranging on-site visits for our Group tax audit partner and his team to meet with local management and our component auditors to discuss audit approach and key judgements;<br>– Analysing material permanent differences in the Group income tax reconciliation and determining whether they do not include any temporary tax differences;<br>– Assessing material 2018 transactions to determine whether the deferred tax impact has been appropriately reflected;<br>– Recalculating deferred tax balances and evaluating whether the tax and accounting base used in the management's calculation are accurate; and<br>– Analysing the causal factors for the prior year error and performing additional targeted audit procedures. We obtained and challenged management's calculation of prior year errors, including the assessment of whether or not errors identified are material individually or in aggregate, and whether they should be restated in line with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* |
| **Key observations** | We are satisfied that management has accounted for deferred tax in line with the requirements of IAS 12 and it is accurate and complete and that the prior year errors identified have been accounted for in accordance with IAS 8. The directors' commentary in relation to the enhanced taxation controls and procedures being implemented is set out on page 120. |

| **Accounting for the guarantee of IRC's debt** | |
|---|---|
| **Key audit matter description** | POG provided a guarantee over IRC's $340m debt with ICBC in 2010 when IRC was a subsidiary of the Group and it receives a fee based on a percentage of the guaranteed amount. POG must value its liability for the provision of the guarantee, as well as the associated income stream of guarantee payments from IRC, in accordance with IFRS 9 Financial Instruments, which was adopted from 1 January 2018. Furthermore, during 2018 POG provided two bridging loans, for a total of $56.8 million to IRC in order to enable it to make scheduled repayments to ICBC, and avoid a potential default. These must also be valued in accordance with IFRS 9.<br><br>The application of the new accounting standards valuations of these financial instruments is complex in respect of the applicable valuable methodologies and the determination of the asset and liabilities values where this is no directly observable inputs in relation to IRC's probability of default and the loss which would result on any default, as well as the likelihood that the refinancing will complete at the balance sheet date. The credit risk associated with IRC at the 2018 year end has significantly increased the value of the liability recognised.<br><br>Please refer to note 2.1 to the Group financial statements and the Audit Committee report on page 118 for further details. |
| **How the scope of our audit responded to the key audit matter** | We challenged management's significant assumptions and conclusions reached in valuing the associated financial instruments by:<br>– Challenging the competence, capability and objectivity and the scope of work of management's third party valuation expert used to perform these valuations. We reviewed their engagement letter and used our own valuation experts to review their scope;<br>– Holding a number of joint meetings between management's expert, management and our valuation and technical accounting experts. In those meetings, and on receipt of their reporting, we challenged the methodologies used, the assumptions applied and the application of the accounting standards;<br>– Independently checking the source information used by management's expert and obtaining other market data available in order to compare that with the assumptions applied in the valuations;<br>– Performing independent recalculations of certain key valuation workings in order to benchmark the output of the valuation models; and<br>– Reviewing management's disclosures of the arrangements in the financial statements within note 25, the first time adoption effects of IFRS 9 in note 2.2 and the revised guarantee arrangements established under the IRC refinancing in March 2019 which are set out in the post balance sheet event note 30. |
| **Key observations** | We consider that the financial liability recognised in respect of the guarantee, and the financial asset in respect of the guarantee fee income are reasonable and in accordance with the requirements of IFRS 9. |

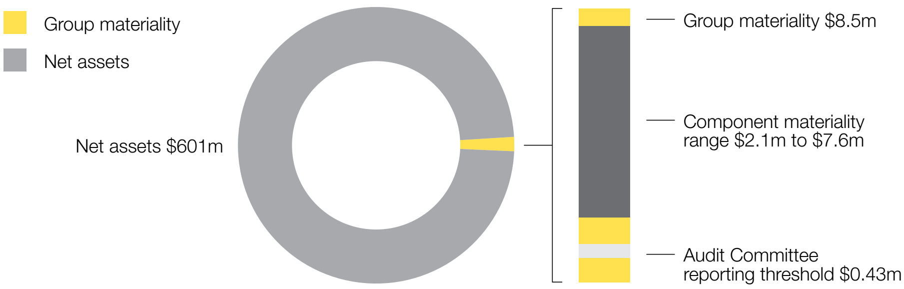
### Our application of materiality

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 financial statements | Company financial statements |
|---|---|---|
| **Materiality** | $8.5 million (2017: $8.7 million) | $7.6 million (2017: $8.3 million) |
| **Basis for determining materiality** | Less than 2 per cent of Group net assets, consistent with the approach taken in 2017. | Less than 2 per cent of the Company's net assets, consistent with the approach taken in 2017. |
| **Rationale for the benchmark applied** | The Group's net asset value reflects its mining assets and proven and probable gold reserves which support those assets. We determined that using a balance sheet metric, rather than profit-based metric, provides a more stable base for materiality, and is more reflective of the scale of the Group's operations as it ramps up the POX Hub. | We have determined materiality based on the net asset position of the Company as its principal activity is to hold investments in subsidiaries. |

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $425 thousand (2017: $435 thousand), 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

We have performed a revised risk assessment considering the key developments in the year, the Group's business risks and its control environment. Other areas of focus for the audit included whether the Group exercises significant influence or control over IRC, the accounting in relation to the gold sale prepayment arrangements entered into in the year, and the recoverability of E&E assets and inventory carrying values. In other areas the audit scope and planned procedures remain consistent with the previous year, with additional tailored procedures where considered appropriate.

Our Group audit focused primarily on the operating locations, being the four operating mines (2017: four), eleven service entities (2017: twelve), six exploration companies (2017: four), twelve finance and holding companies (2017: twenty five) as well as on the Group's associate, IRC. All of the operating mines were subject to a full scope audit, while the exploration assets, finance and holding companies and service entities were subject to specified audit procedures, including testing of the capitalised spend on exploration activities, an impairment assessment and substantive testing of borrowings, material cost of sales and inventory balances, or desktop reviews. The Group's associate was subject to specific audit procedures. 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 the selected locations.

These operating locations represent the principal business units within the Group's reportable segments and account for 96% (2017: 96%) of the Group's net assets and 99% (2017: 99%) of the Group's revenue. They were also selected to provide an appropriate basis for undertaking audit work to address the significant risks of material misstatement identified above.

Full scope audits and specified audit procedures were performed by the component teams in Russia and Hong Kong under the direct supervision of the Group audit team and executed at levels of materiality applicable to each individual entity. The materiality applied to components, ranged from $2.1 million to $7.6 million (2017: $2.2 million to $8.3 million). The Group team took direct responsibility for the audit work in respect of the consolidation process as well as the Group and Company financial statements. The Group team planned, oversaw and directed the work performed by the component auditors. The procedures performed included, but were not limited to, site visits to Group's operating locations, regular communications with the component auditors, a review of the reports provided on the results of the work undertaken by the component audit teams as well as a detailed review of the underlying working papers and challenging the procedures performed to ensure compliance with the relevant professional standards.

During the audit the senior members of the Group audit team visited Moscow to review the work performed by the Russian component team and the Amur region of Russia to visit the Group's assets and hold meetings with senior operational staff. In addition, a senior member of the Group audit team visited Hong Kong to review the work performed on the Group's associate, IRC.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

– Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

– Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the Audit Committee; or

– Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**We have nothing to report in respect of these matters.**

**Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

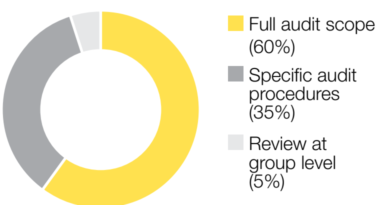
**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

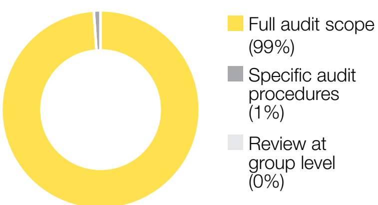
Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Net assets**




**Revenue**



**Extent to which the audit was considered capable of detecting irregularities, including fraud**

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

*Identifying and assessing potential risks related to irregularities*

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- Enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's and Company's policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- Discussing among the engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, financial instruments, IT and mining specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we considered there was a risk of fraud around going concern, which is considered a key audit matter. We also considered there was a risk of fraud around the occurrence and cut off of gold sales and management override of controls; and
- Obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements. These include the UK Companies Act, Listing Rules, UK Corporate Governance Code. In addition, we considered compliance with those laws or regulations that had a fundamental effect on the operations of the Group. These included terms of the group's operating licence and environmental regulations.

*Audit response to risks identified*

As a result of performing the above, we identified going concern as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations described above as having a direct effect;
- Enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant authorities where matters identified were significant;
- In response to the risk of fraud around the occurrence and cut off of gold sales, analysing sales transactions close to the year end and receiving direct bank customer confirmations for the volume and the amount of gold sales; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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 Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The 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 in respect of these matters.**

**Other matters**
*Auditor tenure*
Following the recommendation of the audit committee, we were appointed by the Board of Directors on 15 May 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 10 years covering the years ending 31 December 2009 to 31 December 2018. On this basis, Petropavlovsk would have been required to tender the audit for the year ended 31 December 2019. However, the FRC approved the application submitted by management to extend the period under which Petropavlovsk is required to tender by one year meaning the Group is now required to tender for the 31 December 2020 audit. Please refer to the Audit Committee report on page 112 for further details.

*Consistency of the audit report with the additional report to the audit committee*
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

**Use of our report**
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.

**Christopher Thomas, ACA**
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24 April 2019

# Financial Statements

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

| | note | 2018 US$'000 | 2017 (restated)[a] US$'000 |
|---|---|---|---|
| Group revenue | 5 | 499,775 | 587,420 |
| Operating expenses | 6 | (388,643) | (522,267) |
| Share of results of associate | 14 | 15,480 | 35,208 |
| Operating profit | | 126,612 | 100,361 |
| Investment income | 9 | 3,775 | 760 |
| Interest expense | 9 | (29,520) | (25,905) |
| Other finance gains | 9 | 13,905 | 2,199 |
| Other finance losses | 9 | (32,354) | (28,470) |
| Profit before taxation | | 82,418 | 48,945 |
| Taxation | 10 | (56,489) | (11,804) |
| Profit for the period | | 25,929 | 37,141 |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | | 24,493 | 37,006 |
| Non-controlling interests | | 1,436 | 135 |
| Profit per share | | | |
| Basic profit per share | 11 | US$0.01 | US$0.01 |
| Diluted profit per share | 11 | US$0.01 | US$0.01 |

*(a) See note 2 for details regarding the restatement.*

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| Profit for the period | 25,929 | 37,141 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Revaluation of available-for-sale investments | – | (758) |
| Exchange differences: | | |
| Exchange differences on translating foreign operations | (3,183) | 832 |
| Share of other comprehensive loss of associate | (329) | (458) |
| Cash flow hedges: | | |
| Fair value gains/(losses) | 20,238 | (39,148) |
| Tax thereon | (3,743) | 7,343 |
| Transfer to revenue | 3,419 | (808) |
| Tax thereon | (633) | 162 |
| Other comprehensive profit/(loss) for the period net of tax | 15,769 | (32,835) |
| Total comprehensive profit for the period | 41,698 | 4,306 |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | 40,203 | 4,334 |
| Non-controlling interests | 1,495 | (28) |
| | 41,698 | 4,306 |

# Consolidated Statement of Financial Position

As at 31 December 2018

| | note | 31 December 2018 US$'000 | 31 December 2017 (restated) US$'000 | 1 January 2017 (restated) US$'000 |
|---|---|---|---|---|
| Assets | | | | |
| Non-current assets | | | | |
| Exploration and evaluation assets | 12 | 43,115 | 53,518 | 49,270 |
| Property, plant and equipment | 13 | 1,097,075 | 937,547 | 918,811 |
| Investments in associates | 14 | 85,140 | 70,890 | 36,140 |
| Inventories | 15 | 56,805 | 72,720 | 51,686 |
| Trade and other receivables | 16 | 547 | 8,931 | 11,383 |
| Other non-current assets | | 1,177 | 347 | 1,105 |
| | | 1,283,859 | 1,143,953 | 1,068,395 |
| Current assets | | | | |
| Inventories | 15 | 205,844 | 172,652 | 183,266 |
| Trade and other receivables | 16 | 68,394 | 75,830 | 90,430 |
| Loans granted to an associate | 25 | 50,966 | – | – |
| Derivative financial instruments | | – | – | 7,478 |
| Cash and cash equivalents | 17 | 26,152 | 11,415 | 12,642 |
| | | 351,356 | 259,897 | 293,816 |
| Total assets | | 1,635,215 | 1,403,850 | 1,362,211 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | 19 | (219,845) | (88,333) | (55,638) |
| Current income tax payable | | (1,571) | (940) | (2,288) |
| Borrowings | 20 | – | (7,137) | (85,306) |
| Derivative financial instruments | 18 | (9,955) | – | – |
| Provision for close down and restoration costs | 22 | (804) | (200) | – |
| | | (232,175) | (96,610) | (143,232) |
| Net current assets | | 119,181 | 163,287 | 150,584 |
| Non-current liabilities | | | | |
| Borrowings | 20 | (594,177) | (589,337) | (525,906) |
| Derivative financial instruments | 18 | (2,411) | (49,684) | (10,314) |
| Deferred tax liabilities | 21 | (113,354) | (72,380) | (92,396) |
| Provision for close down and restoration costs | 22 | (20,584) | (20,804) | (19,152) |
| Financial guarantee contract | 25 | (37,387) | (8,603) | (9,229) |
| Trade and other payables | 19 | (33,779) | – | – |
| | | (801,692) | (740,808) | (656,997) |
| Total liabilities | | (1,033,867) | (837,418) | (800,229) |
| Net assets | | 601,348 | 566,432 | 561,982 |
| Equity | | | | |
| Share capital | 23 | 48,963 | 48,920 | 48,920 |
| Share premium | | 518,142 | 518,142 | 518,142 |
| Hedging reserve | | (7,166) | (26,388) | 5,900 |
| Share based payments reserve | | 227 | 144 | – |
| Other reserves | | (17,980) | (17,500) | (17,574) |
| Retained earnings/(losses) | | 47,538 | 32,985 | (10,602) |
| Equity attributable to the shareholders of Petropavlovsk PLC | | 589,724 | 556,303 | 544,786 |
| Non-controlling interests | | 11,624 | 10,129 | 17,196 |
| Total equity | | 601,348 | 566,432 | 561,982 |

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 24 April 2019 and signed on their behalf by

**Sir Roderic Lyne**
Director

**Dr Pavel Maslovskiy**
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

| | Total attributable to equity holders of Petropavlovsk PLC | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital US$'000 | Share premium US$'000 | Share based payments reserve US$'000 | Hedging reserve US$'000 | Other reserves [a] US$'000 | Retained earnings/ (losses) US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
| Balance at 1 January 2017 | 48,920 | 518,142 | – | 5,900 | (17,574) | (1,502) | 553,886 | 16,447 | 570,333 |
| Correction of errors in accounting for property, plant and equipment and deferred tax liabilities [b] | – | – | – | – | – | (9,100) | (9,100) | 749 | (8,351) |
| Balance at 1 January 2017 (restated) | 48,920 | 518,142 | – | 5,900 | (17,574) | (10,602) | 544,786 | 17,196 | 561,982 |
| Total comprehensive (loss)/income (restated) | – | – | – | (32,288) | 74 | 36,548 | 4,334 | (28) | 4,306 |
| Profit for the period (restated) | – | – | – | – | – | 37,006 | 37,006 | 135 | 37,141 |
| Other comprehensive (loss)/income | – | – | – | (32,288) | 74 | (458) | (32,672) | (163) | (32,835) |
| Deferred share awards | – | – | 144 | – | – | – | 144 | – | 144 |
| Issue of shares by subsidiary | – | – | – | – | – | 7,039 | 7,039 | (7,039) | – |
| Balance at 31 December 2017 (restated) | 48,920 | 518,142 | 144 | (26,388) | (17,500) | 32,985 | 556,303 | 10,129 | 566,432 |
| Impact of adopting IFRS 9 [c] | – | – | – | – | 2,703 | (9,959) | (7,256) | – | (7,256) |
| Impact of adopting IFRS 15 [c] | – | – | – | – | – | 58 | 58 | – | 58 |
| Total comprehensive income/(loss) | – | – | – | 19,222 | (3,183) | 24,164 | 40,203 | 1,495 | 41,698 |
| Profit for the period | – | – | – | – | – | 24,493 | 24,493 | 1,436 | 25,929 |
| Other comprehensive income/(loss) | – | – | – | 19,222 | (3,183) | (329) | 15,710 | 59 | 15,769 |
| Deferred share awards | 43 | – | 83 | – | – | 290 | 416 | – | 416 |
| Balance at 31 December 2018 | 48,963 | 518,142 | 227 | (7,166) | (17,980) | 47,538 | 589,724 | 11,624 | 601,348 |

*(a) Including translation reserve of US$(18.0) million (31 December 2017: US$(14.8) million).*

*(b) See note 2 for details regarding the restatement.*

*(c) See note 2 for details of adoption of IFRS 9 and IFRS 15.*

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | note | 2018 US$'000 | 2017 US$'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Cash generated from operations | 24 | 282,826 | 204,306 |
| Interest paid | | (60,577) | (49,205) |
| Income tax paid | | (5,024) | (31,098) |
| Net cash from operating activities | | 217,225 | 124,003 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 24 | (131,213) | (82,295) |
| Expenditure on exploration and evaluation assets | 12 | (3,153) | (5,763) |
| Proceeds from disposal of property, plant and equipment | | 1,170 | 334 |
| Loans granted | 25 | (56,960) | – |
| Interest received | | 3,667 | 752 |
| Net cash used in investing activities | | (186,489) | (86,972) |
| Cash flows from financing activities | | | |
| Issue of Notes, net of transaction costs | | – | 495,035 |
| Repayments of borrowings | | (4,006) | (525,789) |
| Notes related costs | | (2,599) | – |
| Debt transaction costs paid in connection with bank loans | | (6,412) | (9,040) |
| Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development | 29 | – | 31,225 |
| Funds transferred under investment agreement with the Russian Ministry of Far East Development | 29 | – | (31,225) |
| Guarantee fee in connection with ICBC facility | | – | 1,158 |
| Net cash used in financing activities | | (13,017) | (38,636) |
| Net increase/(decrease) in cash and cash equivalents in the period | | 17,719 | (1,605) |
| Effect of exchange rates on cash and cash equivalents | | (2,982) | 378 |
| Cash and cash equivalents at beginning of period | 17 | 11,415 | 12,642 |
| Cash and cash equivalents at end of period | 17 | 26,152 | 11,415 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018



### 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 certain financial assets and financial liabilities (including derivative financial 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 the 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 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, advances received from customers under prepayment arrangements and external debt.

The Group performed an assessment of the forecast cash flows for the period of 12 months from the date of approval of the 2018 Annual Report and Accounts. As at 31 December 2018, the Group had sufficient liquidity headroom. The Group is also satisfied that it has sufficient headroom under a base case scenario for the period to May 2020. The Group has also performed projections under a layered stressed case that is based on a gold price, which is approximately 10% to 14% lower than the average of the market consensus forecasts, non-refractory gold production approximately 5% lower than projected, and Russian Rouble : US Dollar exchange rate that is approximately 8-9% stronger than the average of the market consensus forecasts. This layered stressed case indicates that mitigating actions will be required to be taken in order to ensure sufficient liquidity for the relevant period to May 2020. This includes sufficient liquidity for the repayment, if necessary, of the Company's US$100 million 9% Convertible Bonds, due in March 2020. The mitigating actions include items within the control of the management, such as cost cutting, reduction of capital and operating expenditure, the deferral of prepayment settlements as well as working capital management.

As at 31 December 2018, the Group has guaranteed the outstanding amounts IRC owed to ICBC. The outstanding loan principal was US$169 million as at 31 December 2018. On 19 March 2019, the ICBC Facility was fully refinanced by the loans from Gazprombank. The Group has provided a guarantee in respect of IRC's new US$240 million facility, of which approximately US$233 million has been drawn down to date. The Gazprombank Facility is subject to an initial US$160 million guaranteed by the Group (see note 30). 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 projections demonstrate that IRC expects to have sufficient working capital liquidity over the next 12 months and expects to meet its obligations under the Gazprombank Facility. If a missed repayment under debt or guarantee obligations occurs, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

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 2018 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

**Guarantee over IRC's external borrowings**

The Group historically entered into an arrangement to provide a guarantee over its associate's, IRC, external borrowings, the ICBC Facility. At 31 December 2018 the principal amounts outstanding subject to the guarantee were US$169.6 million (2017: US$233.75 million). Under the terms of the arrangement the Group is entitled to receive an annual fee equal to 1.75% of the outstanding amount.

The financial guarantee contract liability and the guarantee fee income receivable are accounted for under IFRS 9 "Financial instruments". This standard was adopted as at 1 January 2018 (note 2.2). The valuation of these instruments is complex, as set out within the key estimation disclosures in note 3.

As at 31 December 2018, the value of the financial guarantee contract liability recognised was US$37.4 million (1 January 2018: US$11.9 million). The additional provision for expected credit losses (ECL) of US$25.5 million, which reflects the declining credit status of IRC during the year prior to the refinancing agreed in March 2019, has been recognised within Other finance losses (note 9).

As at 31 December 2018, the fair value of the receivable under ICBC guarantee arrangements was US$6.8 million (1 January 2018: US$10.5 million) comprising both billed and future fees receivable, less provision for credit losses. The result from re-measurement of the guarantee receivable to fair value of US$3.7 million was recognised within Other finance losses (note 9).

As set out in note 30, IRC has subsequently refinanced the ICBC Facility through entering into a US$240 million new facility with Gazprombank. In March 2019, IRC drew down an aggregate of US$228.9 million on the Gazprombank Facility that were used to repay the amounts outstanding under the ICBC Facility of approximately US$169 million in full, the two loans provided by the Group in the equivalent of approximately US$57 million in full and to finance the K&S Project's working capital of approximately US$3 million. Part of the remaining proceeds from the Gazprombank Facility is to be used to repay part of the guarantee fee of US$6 million owed by IRC to the Group in respect of the guarantee of the ICBC Facility.

The remaining outstanding contractual guarantee fee of approximately US$5 million is payable by IRC no later than 31 March 2020. In April 2019, IRC has further drawn down US$4.5 million on the Gazprombank Facility.

As part of the refinancing the Group issued a new guarantee which was approved by the Company's shareholders on 12 March 2019. The initially guaranteed borrowings total US$160 million. Further description of the revised arrangements are set out in note 30. Under the new guarantee arrangements, the guarantee fees receivable is determined at each reporting date on an independently determined fair value basis.

**Correction of errors related to property, plant and equipment and deferred tax**

In calculating depreciation expense for mining assets calculated using the units of production method (described in note 2.8), the Group uses volumes of ore processed during the period divided by total ore reserve estimates, including both refractory and non-refractory ore reserves. This ratio is then applied to the depreciable asset base. As the planned processing of the refractory ores required further capital investment, future budgeted capital expenditure has been added to the net book value of mining assets to determine the depreciable amounts. In 2018, the Group undertook a detailed review of application of these accounting policies and discovered that capital expenditure incurred to date in relation to POX Hub and carried within capital construction in progress was excluded from adjustments to the depreciable amounts. As a result, matching between expected capital expenditure and the mining activity over the life of mine was not fully achieved and depreciation charges in prior periods were understated. As a consequence, property, plant and equipment was overstated by US$35.0 million as at 1 January 2017 and US$46.6 million as at 31 December 2017 and associated deferred tax liability was overstated by US$7.0 million as at 1 January 2017 and US$9.3 million as at 31 December 2017.

When preparing consolidated financial statements for relevant prior periods, management applied judgement with regards to whether it was probable that future taxable profits would be available against which the unused tax losses can be utilised and whether it would be appropriate to recognize relevant deferred tax assets accordingly. Management concluded that there was insufficient certainty with regards to relevant project development and availability of future taxable profits against which unused tax credits could be utilised by relevant entities. This was the basis for concluding that recognition of deferred tax assets in relation to unused tax losses would be inappropriate. In 2018, the Group re-analysed criteria for recognising deferred tax assets arising from the unused tax losses under IAS 12 "Income Taxes" and concluded that recognition of deferred tax assets to the extent that the relevant entity has sufficient taxable temporary differences would be appropriate. As a consequence, deferred tax liabilities were overstated by US$19.6 million as at 1 January 2017 and US$24.6 million as at 31 December 2017.

These errors have been corrected by restating the comparative amounts and the opening balances of assets, liabilities and equity as set out below.

*Consolidated Statement of Financial Position (extract)*

| | 31 December 2017 US$'000 | (Decrease)/ increase US$'000 | 31 December 2017 Restated US$'000 | 01 January 2017 US$'000 | (Decrease)/ increase US$'000 | 01 January 2017 Restated US$'000 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 984,114 | (46,567) | 937,547 | 953,794 | (34,983) | 918,811 |
| Deferred tax liabilities | 106,271 | (33,891) | 72,380 | 119,028 | (26,632) | 92,396 |
| Net assets | 579,108 | (12,676) | 566,432 | 570,333 | (8,351) | 561,982 |
| Retained earnings/ (losses) | 47,457 | (14,472) | 32,985 | (1,502) | (9,100) | (10,602) |
| Non-controlling interests | 8,333 | 1,796 | 10,129 | 16,447 | 749 | 17,196 |
| Total equity | 579,108 | (12,676) | 566,432 | 570,333 | (8,351) | 561,982 |

*Consolidated Statement of Profit or Loss (extract)*

| | 2017 US$' 000 | (Decrease)/ increase US$' 000 | 2017 Restated US$' 000 |
|---|---|---|---|
| Operating expenses | 510,683 | 11,584 | 522,267 |
| Taxation | 19,063 | (7,259) | 11,804 |
| Profit for the period | 41,466 | (4,325) | 37,141 |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | 42,378 | (5,372) | 37,006 |
| Non-controlling interests | (912) | 1,047 | 135 |

*Consolidated Statement of Comprehensive Income (extract)*

| | 2017 US$' 000 | (Decrease)/ increase US$' 000 | 2017 Restated US$' 000 |
|---|---|---|---|
| Profit for the period | 41,466 | (4,325) | 37,141 |
| Other comprehensive loss for the period net of tax | (32,835) | – | (32,835) |
| Total comprehensive profit for the period | 8,631 | (4,325) | 4,306 |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | 9,706 | (5,372) | 4,334 |
| Non-controlling interests | (1,075) | 1,047 | (28) |

**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 2018 and applicable to the Group have been adopted:

- IFRS 9 "Financial Instruments".
- IFRS 15 "Revenue from contracts with customers".

The Group applied the modified retrospective transition approach and has not restated comparative information on the initial application of IFRS 9 and IFRS 15. The impact of the adoption of these standards is disclosed below.

*Impact of adoption - IFRS 9 "Financial Instruments":*

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets.

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.

Impairment: The new impairment model requires the recognition of impairment provision based on expected credit losses (ECL) rather than only incurred credit losses as under IAS 39. This may result in an earlier recognition of credit losses.

Hedge accounting: The adoption of the new standard did not materially change the amounts recognised in relation to existing hedging arrangements and the Group elected to continue to adopt the hedge accounting provisions of IAS 39.

The classification and measurement of financial assets and financial liabilities under IAS 39 and IFRS 9 on the date of initial application, 1 January 2018, are set out below.

| | Measurement category | | Carrying amount as at 1 January 2018 | | |
|---|---|---|---|---|---|
| | Original under IAS 39 | New under IFRS 9 | Original under IAS 39 US$' 000 | New under IFRS 9 US$' 000 | Difference US$' 000 |
| Financial assets | | | | | |
| Cash and cash equivalents | Amortised cost | Amortised cost | 11,415 | 11,415 | – |
| Trade and other receivables: | | | | | |
| Trade receivables and contract assets [(a)] | Amortised cost | Amortised cost | 9,297 | 9,256 | (41) |
| Other receivables – ICBC guarantee arrangements [(b), (c)] | Amortised cost | FVPL | 13,077 | 10,566 | (2,511) |
| Other receivables [(a)] | Amortised cost | Amortised cost | 5,401 | 4,926 | (475) |
| Other non-current assets [(d)] | Available for sale | FVPL | 347 | 347 | – |
| | | | | | |
| Financial liabilities | | | | | |
| Trade and other payables | Amortised cost | Amortised cost | 53,695 | 53,695 | – |
| Borrowings | Amortised cost | Amortised cost | 596,474 | 596,474 | – |
| Financial guarantee [(b), (e)] | Financial guarantee contract | Financial guarantee contract | 8,603 | 11,928 | (3,325) |
| Derivative financial instruments | FVPL | FVPL | 17,207 | 17,207 | – |
| Derivative financial instruments - cash flow hedge | FV designated as a hedging instrument | FV designated as a hedging instrument | 32,477 | 32,477 | – |

*(a) The difference in carrying amounts is the result of applying new ECL model.*

*(b) Please refer to notes 14 and 25 for the details of the financial guarantee issued to IRC in relation to ICBC Facility.*

*(c) The following criteria were evaluated when concluding on classification of the financial asset:*
*- Business model test: Reflects how the financial asset is managed. Business model for the ICBC guarantee asset is concluded to be "hold to collect" and*
*- SPPI ("Solely payments of Principal and Interest") test: the cash flows the Group is entitled under the guarantee arrangement are not considered to be consistent with "basic lending arrangement".*
*In view of the above, the financial asset was classified at FVPL. The difference in carrying amounts is the result of re-measurement of the receivable at fair value.*

*(d) US$2.7 million associated accumulated revaluation losses previously recognised through other comprehensive losses were re-classified from Other reserves to Retained earnings.*

*(e) The difference in carrying amounts is the result of re-measurement of the associated liability in accordance with ECL model.*

*(f) A further US$0.9 million increase in loss allowance was recognised to reflect the impact of adopting the ECL approach by the Group's associate IRC on the Group's share in net assets of IRC (note 14).*

*Impact of adoption - IFRS 15 "Revenue from contracts with customers":*
The main principle under IFRS 15 is that revenues earned from contracts should be apportioned to individual performance obligations on a relative standalone selling price basis, based on a five-step model that involves identifying the contract with a customer, identify the performance obligations in the contract, determining the transaction price, allocating the transaction price to each performance obligation and recognising revenue when a performance obligation is satisfied by transferring a promised good or service to a customer. The timing of revenue recognition under IFRS 15 occurs when control is transferred to the customer, while under IAS 18 this took place when risk and rewards were transferred.

Sales of gold and silver: The point of revenue recognition for gold and silver sales is dependent on the contract sales terms. As the transfer of risks and rewards coincides with the transfer of control at a point in time, the Group retains no continuous involvement over the goods sold and consideration is fixed when control is transferred, the timing and amount of revenue recognised for the sale of gold and silver was not affected as a result of adoption of IFRS 15.

Other revenue: The adoption of IFRS 15 has resulted in earlier recognition of revenue from procurement of certain materials and consumables for third parties. This change resulted in a corresponding increase in costs of sales and, therefore, did not have material impact on previously reported operating profit. Revenue from engineering and construction contracts was not materially affected as a result of adoption of IFRS 15.

**New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2018 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 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 profit or loss 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 only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The Group reviewed the Group's lease and other contractual arrangements over the last year in light of the new lease accounting rules in IFRS 16. The Group expects to recognise right-of-use assets of approximately US$2 million and corresponding lease liabilities.

– Annual improvements to IFRS Standards: 2015-2017 Cycle.

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 reporting 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; and
– Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Company reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.
The recognised income and expense are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

**2.4. Non-controlling interests**
The Group treats transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**2.5. Investments in associates**
An associate is an entity over which the Group is in a position to exercise significant influence but not control or joint control.

Investments in associates are accounted for using the equity method of accounting. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of an associate in profit or loss and the Group's share of movements in other comprehensive income of an associate in other comprehensive income.

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.

When a Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

The carrying amount of equity-accounted investments is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### 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 2018 | Average year ended 31 December 2018 | As at 31 December 2017 | Average year ended 31 December 2017 |
|---|---|---|---|---|
| GB Pounds Sterling (GBP : US$) | 0.78 | 0.75 | 0.74 | 0.78 |
| Russian Rouble (RUB : US$) | 69.47 | 62.68 | 57.60 | 58.32 |

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 profit or loss. 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 reporting 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. Exploration and evaluation assets
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 statement of financial position within exploration and evaluation 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.

Exploration and evaluation assets 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 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 the related assets under construction and 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.

**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 reporting 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, exploration and evaluation assets and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This applies to the assets held by the Group itself as well as the Group's share of the assets held by the associates.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) or 'fair value less costs to sell'. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction. Future cash flows are based on:

- Estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices (assuming the current market prices will revert to the Group's assessment of the long-term average price, generally over a period of up to five years); and
- Future cash costs of production, capital expenditure, environment protection, rehabilitation and closure.

IAS 36 'Impairment of assets' includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related capital expenditure. When calculating 'value in use', it also requires that calculations should be based on exchange rates current at the time of the assessment.

For operations with a functional currency other than the US Dollar, the impairment review is undertaken in the relevant functional currency. These estimates are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36 'Impairment of assets'.

The discount rate applied is based upon a 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 profit or loss so as to reduce the carrying amount in the statement of financial position 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 profit or loss 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 profit or loss in the period over which economic benefits related to the stripping activity are realised where this is the most appropriate basis for matching the costs against the related economic benefits.

Where, during the production phase, further development of the mine requires a phase of unusually high overburden removal activity that is similar in nature to pre-production mine development, such stripping costs are considered in a manner consistent with stripping costs incurred during the development of the mine before the commercial production commences.

### 2.11. 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 profit or loss 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 reporting date. All other costs of continuous rehabilitation are charged to profit or loss 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 profit or loss. 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 assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs attributable to financial assets and financial liabilities carried at FVPL are expensed in profit or loss.

The subsequent measurement of financial assets and liabilities is set out below.

**Effective interest method**
The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Financial assets**
*Classification and subsequent measurement*
From 1 January 2018, the Group classified its financial assets in the following measurement categories:

– Those to be measured subsequently at fair value (either through profit or loss or through OCI); and
– Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets the meet the following conditions are subsequently measured at amortised cost:

– The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value either through OCI or profit or loss.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

*Impairment*
From 1 January 2018, the Group assesses on a forward-looking basis the ECL associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables and contract assets. Trade receivables and contract assets are written off when there is no reasonable expectation of recovery.

*Credit-impaired financial assets*
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

– Significant financial difficulty of the issuer or the borrower;
– A breach of contract, such as a default or past due event;
– The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
– It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
– The disappearance of an active market for that financial asset because of financial difficulties; or
– The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

For credit-impaired financial assets, the credit-adjusted effective interest rate is applied to the amortised cost of the financial asset from initial recognition. When calculating the credit-adjusted effective interest rate, The Group estimates the expected cash flows by considering all contractual terms of the financial asset and ECL.

**Cash and cash equivalents**
Cash and cash equivalents includes 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 recognised initially at fair value and are subsequently measured at amortised cost using the effective interest rate method, less loss allowance.

**Financial assets - accounting policies applied until 31 December 2017**
Financial assets were 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 depended on the nature and purpose of the financial assets and was determined at the time of initial recognition. Financial assets were recognised at trade-date, the date on which the Group commits to purchase the asset. The Group did not hold any financial assets which met the definition of 'held-to-maturity investments'.

*Financial assets at fair value through profit or loss*
This category had two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset was classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category were classified as current if they are either held for trading or are expected to be realised within 12 months after the reporting date.

*Available-for-sale financial assets*
Available-for-sale financial assets were non-derivative financial assets that were either designated in this category or not classified in any of the other categories. They were included within non-current assets unless the investment matures or management intends to dispose of them within 12 months after the reporting date. Available-for-sale financial assets were initially measured at cost and subsequently carried at fair value. Changes in the carrying amount of available-for-sale financial assets were recognised in other comprehensive income and accumulated under the heading of other reserve in equity. When the investment was disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss.

*Loans and receivables*
Loans and receivables were non-derivative financial assets fixed or determinable payments that were not quoted on an active market. Loans and receivables were recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income was recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

*Impairment*
The Group assessed at each reporting date whether there was objective evidence that a financial asset or a group of financial assets was 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 was considered in determining whether the securities were impaired. If any such evidence existed 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 – was removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments were not reversed.

**Financial liabilities and equity**
*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.

*Borrowings*
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss 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 reporting date.

*Trade and other payables*
Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

*Financial guarantee contracts*
Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- The amount determined in accordance with the ECL model under IFRS 9 Financial Instruments; and
- The amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

**Derivatives and hedging activities**
Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured at fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivative financial instruments as hedging relationships. For the purposes of hedge accounting, hedging relationships may be of three types:

- Fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability;
- Cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; and
- Hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity.

Currently the Group has only 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 statement of profit or loss 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.

Changes in fair value of any derivative instrument that does not qualify for hedge accounting are recognised in profit or loss immediately and included in other finance gains or losses.

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 in profit or loss. Embedded derivatives which are settled net are disclosed in line with the maturity of their host contracts.

**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 reporting 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.
– Flotation concentrate represents very fine, powder-like product containing the valuable ore mineral from which most of the waste mineral has been eliminated. Flotation concentrate is valued at the average production costs.

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, flotation concentrate and finished goods inventory to net realisable value where the net realisable value is lower than relevant inventory cost at the reporting 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 reporting 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 profit or loss on a straight-line basis over the period of the lease.

**2.16. Revenue recognition**
To recognise revenue under IFRS 15, the Group applies the following five steps:

– Identify the contract(s) with a customer.
– Identify the separate performance obligations in the contract: Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct.
– Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.
– Allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.
– Recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time

or over time. For a performance obligation satisfied over time, the Group selects an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

**Sales of gold and silver**
The majority of the Group's revenue is derived from the sale of refined gold. The sale of gold is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer, as specified in individual sales contracts. The sales price is determined with reference to LBMA fixing at the time of sale.

Silver is a co-product of gold production. Revenue from the sales of silver is recognised in revenue. Sales of silver is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer, as specified in individual sales contracts.

**Other revenue**
Other revenue is recognised as follows:

- Engineering contracts: revenue under each engineering contract is classified as a single performance obligation and revenue is recognised over time based on percentage completion applied to the contract price;
- Flotation concentrate: the sale of flotation concentrate is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer, as specified in individual sales contracts;
- Sales of other goods represent the procurement of materials, consumables and equipment for third parties. Revenue from sales of other goods is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer;
- Other services: revenue from other services is classified as a single performance obligation and revenue is recognised over time during the term of the relevant contract; and
- Rental income from operating leases is classified as a single performance obligation and revenue is recognised over time during 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 profit or loss, 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 reporting 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 reporting 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 to profit or loss, 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

**Significant influence over IRC**

As at 31 December 2018, the Group was the single largest shareholder of IRC, holding approximately 31.1% of IRC's issued shares. The Group considers that it exercises significant influence, but does not control, over IRC such that it is equity accounted as an investment in an associate, in accordance with IAS 28 "Investments in associates". Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee. If control were to exist then IRC would be required to be consolidated as a subsidiary into the Group's consolidated financial information.

In making this assessment, the Group also considered the definition of control under IFRS 10 "Consolidated Financial Statements" being where an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The factors considered included:

- Relative shareholdings
- Shareholder voting rights;
- Rights to nominate and appoint Directors and executive management of IRC;
- Influence over the IRC Board and executive management; and
- Operational independence of IRC.

After taking into account the aforementioned control factors in aggregate, it is considered that the Group does not exercise de facto control over IRC and IRC is not a subsidiary to the Group. Accordingly, accounting treatment applied to treat the Group's investment in IRC is as an investment in associate in accordance with IAS 28 "Investments in associates".

**Functional currency**

IAS 21 "The Effects of Changes in Foreign Exchange Rates" defines functional currency as the currency of the primary economic environment in which the entity operates. The Group therefore performs an analysis of the currencies in which each subsidiary primarily generates and expends cash. This involves an assessment of the currency in which sales are generated and operational and capital expenditures are incurred, and currency in which external borrowing costs are denominated. Management makes judgements in defining the functional currency of the Group's subsidiaries based on economic substance of the transactions relevant to these entities.

For each of the Group's consolidated entities, management performed analysis of relevant factors that are indicators of functional currency and, based on the analysis performed, determined functional currency, accordingly. The Group concluded that the functional currency for each of the subsidiaries in Russia, except for its research institute Irgiredmet, is the US Dollar. Functional currency for Irgiredment was concluded to be the Russian Rouble.

**Cash generating unit ("CGU") determination and impairment indicators**

The Group exercises judgement in determining the Groups individual CGUs based upon an assessment of the whether the cash inflows generated are capable of being separately identifiable and independent. This assessment considered whether there is an active market for the outputs of each significant element of the production process, including gold concentrate. Management also applies judgement in allocating assets that do not generate independent cash inflows to the Group's CGUs. Any changes to CGU determinations would impact the carrying values of the respective CGUs.

The Group considers both external and internal sources of information in assessing whether there are any indications that its CGUs are impaired. External sources of information include changes in the market, economic and legal environment in which the Group operates that are not within its control. Internal sources of information include the manner in which mining assets and plant and equipment are being used or are expected to be used and indicators of economic performance of such assets. Judgement is therefore required to determine whether these updates represent significant changes in the service potential of an asset or CGU, and are therefore indicators of impairment or impairment reversal.

**Advances from customers under gold sales contracts**

During the year ended 31 December 2018, the Group has entered into prepaid gold sales arrangements, which are settled solely through physical delivery and are priced based on the spot gold price, prevailing at the date of the respective shipment. The arrangements fall under IFRS 15 'Revenue from Contracts with Customers' and advances received represent contract liabilities included within Trade and other payables as Advances from customers. As of 31 December 2018, the relevant contract liabilities amount to US$163.8 million (31 December 2017: US$nil).

#### 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 to profit or loss 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.

**Impairment and impairment reversals**
The Group reviews the carrying values of property, plant and equipment 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.

The Group necessarily applies judgement in the determining the assumptions to be applied within the value in use calculations. The key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out in note 6.

Future changes to the key 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, foreign exchange rates and discount rates. Changes to these assumptions would result in changes to conclusions in relation to impairment, which could have a significant effect on the consolidated financial statements. Details of impairment and/or impairment reversals, together with a sensitivity analysis, in relation to the property, plant and equipment are set out in note 6.

**Valuation of financial guarantee contracts**
The Group has provided a guarantee over IRC's external borrowings from the Industrial and Commercial Bank of China ("ICBC"). IFRS 9 "Financial Instruments" requires that financial guarantee contracts are valued at the higher of:

- The amount of the loss allowance; and
- The amount initially recognised less the cumulative amount of income recognised in accordance with the principals of IFRS 15 "Revenue from Contracts with Customers"

In determining the loss allowance, the Group must make significant judgements in the estimating the expected credit losses. This includes using a probability-based approach to determine a range of possible outcomes, assessing the time value of money and thereby determining an estimate of the payments required to reimburse ICBC in the event of a future default by IRC.

Details of the Group's financial guarantee are set out in note 14. The valuation of the financial guarantee contract liability was sensitive to a number of factors including IRC's default risk and the probability of IRC's refinancing completing as at 31 December 2018. Given the successful completion of the refinancing in March 2019 on improved terms, the valuation of the guarantee liability may reduce materially and the fee receivable asset may increase.

**Valuation of ore stockpiles**
Costs are allocated to ore mined based on the cost per tonne of extraction. At 31 December 2018 the group held ore stockpile inventories of US$93.2 million (2017: US$110.2 million). These are tested for impairment at each reporting date based on the expected costs to complete their processing and the realisable gold price. Changes in these assumptions, particularly for ore stockpiles of a lower grade, can give rise to write downs. In the year ended 31 December 18, the Group recognised a charge of US$18 million and as at 31 December 2018 the Group had US$10.1 million ore stockpiles carried at net realisable value. A 10% reduction in the forecast gold price would give rise to an additional write down of approximately US$1.7 million.

**Taxation**
The Group is subject to income tax in the UK, Russian Federation and Cyprus.

Deferred tax liabilities are calculated on taxable temporary differences, being the difference between the tax and accounting base.

Deferred tax assets, including those arising from unused tax losses carried forward for the future tax periods and deductible temporary differences, are recognised only when it is either probable that the future taxable profits will be available against which the unused tax losses can be utilised or there are sufficient taxable temporary differences.

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. In addition, the functional currency for the subsidiaries in Russia is the US Dollar which gives rise to foreign exchange movements in relation to temporary differences and deferred tax (note 10).

The aforementioned 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 recognised in the statement of financial position 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 profit or loss. In particular, if the Russian Rouble was 10% weaker as at 31 December 2018, this would give rise to an additional US$13.2 million deferred tax liability and corresponding increase to the tax charge for the year ended 31 December 2018.

**Going Concern**
Details about the Group's ability to continue as a going concern are set out in note 2.1.

### 3.3. Other sources of estimation uncertainty

**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 profit or loss. Details of exploration and evaluation assets are set out in note 12.

**Deferred stripping costs**
Stripping costs are deferred and capitalised if they relate to gaining improved access to an identified component of an ore body to be mined in future periods. The capitalised amount is determined based on the volume of waste extracted, compared with expected ore volume in the identified component of the ore body. The identification of the components of a mine's ore body is a critical estimate and is made by reference to the respective life of mine plan. Changes to the life of mine plan, including the life and design of a mine, may result in the capitalisation of production stripping costs or adjustments of the carrying value of stripping costs capitalised in previous periods. 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.

**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 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.

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 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

| 2018 | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| Gold [a] | 171,023 | 8,173 | 98,343 | 189,135 | – | 466,674 |
| Silver | 591 | 29 | 61 | 160 | – | 841 |
| Flotation concentrate | – | – | 3,202 | – | – | 3,202 |
| Other external revenue | – | – | – | – | 29,058 | 29,058 |
| Inter segment revenue | 524 | – | 807 | 5 | 170,916 | 172,252 |
| Intra group eliminations | (524) | – | (807) | (5) | (170,916) | (172,252) |
| Total Group revenue from external customers | 171,614 | 8,202 | 101,606 | 189,295 | 29,058 | 499,775 |
| Operating expenses and income | | | | | | |
| Operating cash costs [b] | (108,466) | (8,667) | (63,913) | (112,687) | (31,286) | (325,019) |
| Depreciation | (36,982) | (681) | (22,701) | (41,427) | (445) | (102,236) |
| Central administration expenses | – | – | – | – | (39,195) | (39,195) |
| Reversal of impairment of mining assets | – | – | 82,958 | – | 18,737 | 101,695 |
| Impairment of exploration and evaluation assets | – | – | (12,192) | – | – | (12,192) |
| Impairment of ore stockpiles | – | – | (309) | (17,712) | – | (18,021) |
| Impairment of gold in circuit | (1,415) | (17) | (536) | (157) | – | (2,125) |
| Total operating expenses [c] | (146,863) | (9,365) | (16,693) | (171,983) | (52,189) | (397,093) |
| Share of results of associates | – | – | – | – | 15,480 | 15,480 |
| Segment result | 24,751 | (1,163) | 84,913 | 17,312 | (7,651) | 118,162 |
| Foreign exchange gains | | | | | | 8,450 |
| Operating profit | | | | | | 126,612 |
| Investment income | | | | | | 3,775 |
| Interest expense | | | | | | (29,520) |
| Other finance gains | | | | | | 13,905 |
| Other finance losses | | | | | | (32,354) |
| Taxation | | | | | | (56,489) |
| Profit for the period | | | | | | 25,929 |
| Segment assets | 437,203 | – | 630,918 | 319,139 | 188,516 | 1,575,776 |
| Segment liabilities | (66,689) | – | (75,876) | (100,569) | (83,202) | (326,336) |
| Deferred tax – net | | | | | | (113,354) |
| Unallocated cash | | | | | | 8,473 |
| Loans granted to associate | | | | | | 50,966 |
| Borrowings | | | | | | (594,177) |
| Net assets | | | | | | 601,348 |
| Other segment information | | | | | | |
| Additions to non-current assets: | | | | | | |
| Exploration and evaluation expenditure | 1,092 | – | 1,090 | 971 | – | 3,153 |
| Capital Expenditure | 50,277 | – | 59,879 | 14,539 | 2,558 | 127,253 |
| Other items capitalised [d] | 28,789 | – | 5,130 | (115) | – | 33,804 |
| Average number of employees | 2,711 | – | 1,138 | 1,485 | 3,347 | 8,681 |

*(a) Net of US$(3.4) million net of cash settlement paid by the Group for realised cash flow hedges.*

*(b) Operating cash costs of Malomir include cost of flotation concentrate sold US$2.6 million.*

*(c) Operating expenses excluding foreign exchange losses (note 6).*

*(d) Interest and close down and restoration costs capitalised (note 13).*

## 4. Segment information continued

| 2017 | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Consolidated (restated) US$'000 |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| Gold[e] | 202,392 | 40,687 | 83,098 | 228,915 | – | 555,092 |
| Silver | 743 | 121 | 42 | 185 | – | 1,091 |
| Other external revenue | – | – | – | – | 31,237 | 31,237 |
| Inter segment revenue | 815 | – | 1,001 | 327 | 154,325 | 156,468 |
| Intra group eliminations | (815) | – | (1,001) | (327) | (154,325) | (156,468) |
| Total Group revenue from external customers | 203,135 | 40,808 | 83,140 | 229,100 | 31,237 | 587,420 |
| Operating expenses and income | | | | | | |
| Operating cash costs | (127,657) | (39,988) | (61,079) | (98,354) | (30,030) | (357,108) |
| Accrual for additional mining tax[f] | (6,511) | (2,255) | (2,780) | (8,306) | – | (19,852) |
| Depreciation | (36,168) | (7,112) | (16,959) | (44,346) | (215) | (104,800) |
| Central administration expenses | – | – | – | – | (39,944) | (39,944) |
| Reversal of impairment/(impairment) of ore stockpiles | 3,589 | (175) | (304) | 1,592 | – | 4,702 |
| Impairment of gold in circuit | (2,594) | (733) | (563) | – | – | (3,890) |
| Impairment of non-trading loans | – | – | – | – | (629) | (629) |
| Total operating expenses[g] | (169,341) | (50,263) | (81,685) | (149,414) | (70,818) | (521,521) |
| Share of results of associates | – | – | – | – | 35,208 | 35,208 |
| Segment result | 33,794 | (9,455) | 1,455 | 79,686 | (4,373) | 101,107 |
| Foreign exchange losses | | | | | | (746) |
| Operating profit | | | | | | 100,361 |
| Investment income | | | | | | 760 |
| Interest expense | | | | | | (25,905) |
| Other finance gains | | | | | | 2,199 |
| Other finance losses | | | | | | (28,470) |
| Taxation | | | | | | (11,804) |
| Profit for the period | | | | | | 37,141 |
| Segment assets | 383,012 | 11,117 | 474,164 | 379,040 | 154,281 | 1,401,614 |
| Segment liabilities | (35,777) | (7,583) | (14,474) | (35,949) | (74,781) | (168,564) |
| Deferred tax – net | | | | | | (72,380) |
| Unallocated cash | | | | | | 2,236 |
| Borrowings | | | | | | (596,474) |
| Net assets | | | | | | 566,432 |
| Other segment information | | | | | | |
| Additions to non-current assets: | | | | | | |
| Exploration and evaluation expenditure | 5,592 | – | 44 | 127 | – | 5,763 |
| Capital Expenditure | 44,349 | 37 | 29,700 | 10,000 | 2,070 | 86,156 |
| Other items capitalised[h] | 26,438 | 355 | 8,540 | 1,052 | – | 36,385 |
| Average number of employees | 1,670 | 990 | 1,021 | 1,535 | 3,303 | 8,519 |

*(e) Including US$0.8 million contribution from realised cash flow hedges.*

*(f) Amounts of mining tax for the six-month period to 31 December 2016, interest and penalties paid by the Group in 2017 following unfavourable court decisions.*

*(g) Operating expenses excluding foreign exchange losses (note 6).*

*(h) Interest and close down and restoration costs capitalised (note 13).*

### 4. Segment information continued

**Entity wide disclosures**

*Revenue by geographical location [a]*

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Russia and CIS | 499,716 | 587,361 |
| Other | 59 | 59 |
| | 499,775 | 587,420 |

*(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]*

| | 2018 US$'000 | 2017 US$'000 (restated) |
|---|---|---|
| Russia | 1,282,672 | 1,134,630 |
| Other | 50 | 45 |
| | 1,282,722 | 1,134,675 |

*(b) Excluding financial instruments and deferred tax assets.*

*Information about major customers*

During the years ended 31 December 2018 and 2017, 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 2018 are revenues of US$451 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$368 million to Sberbank of Russia and US$83 million to Gazprombank (2017: US$555 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$414 million to Sberbank of Russia and US$142 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

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Sales of goods: | | |
| Gold | 466,674 | 555,092 |
| Silver | 841 | 1,091 |
| Flotation concentrate | 3,202 | – |
| Other goods | 14,603 | 15,483 |
| Sales of services: | | |
| Engineering and construction contracts | 11,653 | 13,952 |
| Other services | 2,136 | 1,093 |
| Rental income | 666 | 709 |
| | 499,775 | 587,420 |

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Timing of revenue recognition: | | |
| At a point in time | 485,320 | 571,666 |
| Over time | 14,455 | 15,754 |
| | 499,775 | 587,420 |

### 6. Operating expenses and income

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| Net operating expenses [(a)] | 427,255 | 461,908 |
| Accrual for additional mining tax [(b)] | – | 19,852 |
| Reversal of impairment of mining assets and in-house service [(a)] | (101,695) | – |
| Impairment of exploration and evaluation assets | 12,192 | – |
| Impairment/(reversal of impairment) of ore stockpiles [(a)] | 18,021 | (4,702) |
| Impairment of gold in circuit | 2,125 | 3,890 |
| Central administration expenses [(a)] | 39,195 | 39,944 |
| Foreign exchange (gains)/losses | (8,450) | 746 |
| Impairment of non-trading loans | – | 629 |
| | 388,643 | 522,267 |

*(a) As set out below.*

*(b) Amounts of mining tax for the six-month period to 31 December 2016, interest and penalties paid by the Group in 2017 following unfavourable court decisions.*

#### Net operating expenses

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| Depreciation | 102,236 | 104,800 |
| Staff costs | 76,110 | 80,071 |
| Materials | 95,282 | 108,201 |
| Fuel | 45,713 | 43,793 |
| External services | 48,058 | 38,719 |
| Mining tax credit | (131) | – |
| Electricity | 26,563 | 30,074 |
| Smelting and transportation costs | 607 | 794 |
| Movement in ore stockpiles, deferred stripping, work in progress, bullion in process, limestone and flotation concentrate attributable to gold production | (15,853) | 7,456 |
| Taxes other than income | 6,418 | 5,886 |
| Insurance | 7,168 | 8,214 |
| Operating lease rentals | 2,034 | 3,352 |
| Provision for impairment of trade and other receivables | 1,435 | 364 |
| Bank charges | 414 | 258 |
| Repair and maintenance | 6,078 | 6,643 |
| Security services | 3,966 | 2,750 |
| Travel expenses | 2,955 | 3,369 |
| Goods for resale | 11,200 | 11,802 |
| Other operating expenses | 7,002 | 5,362 |
| | 427,255 | 461,908 |

## 6. Operating expenses and income continued

### Central administration expenses

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Staff costs | 25,366 | 23,556 |
| Professional fees | 5,531 | 6,854 |
| Insurance | 616 | 928 |
| Operating lease rentals | 1,723 | 1,920 |
| Business travel expenses | 1,541 | 1,142 |
| Office costs | 589 | 533 |
| Other | 3,829 | 5,011 |
| | 39,195 | 39,944 |

### Impairment charges

*Impairment of mining assets*

The Group undertook a review of impairment indicators and impairment reversal indicators of the tangible assets attributable to its gold mining projects and supporting in-house service companies. Detailed calculations of recoverable amounts, which are value-in-use calculations based on discounted cash flows, were prepared which concluded no impairment was required as at 31 December 2018 and 2017.

Having considered the excess of estimated recoverable amounts over the carrying values of the associated assets on the statement of financial position as at 31 December 2018 and taking into consideration removed uncertainty connected with the timing of the final construction and performance of the POX hub, the Directors concluded on the following:

- A reversal of impairment previously recorded against the carrying value of the assets that are part of the Malomir CGU would be appropriate. Accordingly, a post-tax impairment reversal of US$66.4 million (being US$83.0 million gross impairment reversal net of associated deferred tax liabilities) has been recorded against the associated assets within property, plant and equipment. The aforementioned impairment reversal takes into consideration the effect of depreciation attributable to relevant mining assets and intra-group transfers of previously impaired assets to Malomir.
- A further reversal of impairment previously recorded against the carrying value of the assets of the supporting in-house service companies would be appropriate to the extent of the headroom available at Malomir and Albyn CGUs and relevant carrying values allocated to these CGUs. Accordingly, a post-tax impairment reversal of US$15.2 million (being US$18.7 million gross impairment reversal net of associated deferred tax liabilities) has been recorded against the associated assets within property, plant and equipment. The aforementioned impairment reversal takes into consideration the effect of depreciation attributable to relevant assets and intra-group transfers of previously impaired assets.

The 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 2018 | Year ended 31 December 2017 |
|---|---|---|
| Long-term real gold price | US$1,300/oz | US$1,300/oz |
| Discount rate[a] | 8.5% | 8.0% |
| RUB : US$ exchange rate | RUB67.0 : US$1 | RUB60.0 : US$1 |

*(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 12.5% (2017: 11.6%).*

With all other assumptions being constant, changes to the aforementioned key assumptions could potentially result in impairment of certain mining assets as set out below.

| | | Potential impairment[a] |
|---|---|---|
| Long-term real gold price | US$1,150/oz | US$129 million |
| Discount rate | 9.5% | US$12 million |
| RUB : US$ exchange rate | RUB61.0 : US$1 | US$42 million |

*(a) Primarily in relation to Pioneer CGU.*

### 6. Operating expenses and income continued

*Impairment of exploration and evaluation assets*
The Group performed a review of its exploration and evaluation assets and concluded to suspend exploration at the Flanks of Malomir and surrender the relevant licences. An aggregate impairment charge of US$12.2 million was recorded against associated exploration and evaluation assets. No impairment was recorded against exploration and evaluation assets in 2017.

As at 31 December 2018, all exploration and evaluation assets in the statement of financial position related to the areas adjacent to the existing mines (note 12).

*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 2018 | | | Year ended 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Pre-tax impairment charge US$'000 | Taxation US$'000 | Post-tax impairment charge US$'000 | Pre-tax impairment charge/ (reversal of impairment) US$'000 | Taxation US$'000 | Post-tax impairment charge/ (reversal of impairment) US$'000 |
| Pokrovskiy | – | – | – | 175 | (35) | 140 |
| Pioneer | – | – | – | (3,589) | 717 | (2,872) |
| Malomir | 309 | (62) | 247 | 304 | (61) | 243 |
| Albyn | 17,712 | (3,011) | 14,701 | (1,592) | 271 | (1,321) |
| | 18,021 | (3,073) | 14,948 | (4,702) | 892 | (3,810) |

### 7. Auditor's remuneration

The Group, including its overseas subsidiaries, obtained the following services from the Company's auditor and their associates:

| | 2018 US$'000 | 2017 US$'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 | 803 | 568 |
| 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 | 320 | 296 |
| For the audit of subsidiary statutory accounts pursuant to legislation [a] | 65 | 57 |
| | 1,188 | 921 |
| Non-audit fees | | |
| Other services pursuant to legislation – interim review | 273 | 231 |
| Fees for reporting accountants services [b] | 900 | 202 |
| Tax services | – | 12 |
| | 1,173 | 445 |

*(a) Including the statutory audit of subsidiaries in the UK and Cyprus.*

*(b) Fees payable in relation to the ICBC guarantee restructuring process (notes 25 and 30) (2017: Fees payable in relation to the issuance of the US$500 million 8.125 per cent Guaranteed Notes (note 20).*

## 8. Staff costs

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Wages and salaries | 80,090 | 81,619 |
| Social security costs | 20,855 | 21,696 |
| Pension costs | 115 | 168 |
| Share-based compensation | 416 | 144 |
| | 101,476 | 103,627 |
| | | |
| Average number of employees | 8,681 | 8,519 |

## 9. Financial income and expenses

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Investment income | | |
| Interest income | 3,775 | 760 |
| | 3,775 | 760 |
| Interest expense | | |
| Bank loans | (1,083) | (42,701) |
| Notes | (41,886) | (5,308) |
| Convertible bonds | (12,579) | (12,221) |
| Prepayment on gold sale agreements | (7,213) | - |
| | (62,761) | (60,230) |
| Interest capitalised | 33,666 | 34,592 |
| Unwinding of discount on environmental obligation | (425) | (267) |
| | (29,520) | (25,905) |
| Other finance gains | | |
| Fair value gain on listed equity investments | 244 | – |
| Fair value gain on derivative financial instruments [(a)] | 13,661 | – |
| Financial guarantee fee [(b)] | – | 2,199 |
| | 13,905 | 2,199 |
| Other finance losses | | |
| Financial guarantee contract [(b)] | (25,471) | – |
| Fair value loss on guarantee receivable [(c)] | (3,720) | – |
| Impairment of financial assets [(d)] | (3,163) | – |
| Loss on bank debt refinancing | – | (21,577) |
| Fair value loss on derivative financial instruments [(a)] | – | (6,893) |
| | (32,354) | (28,470) |

*(a) Result from re-measurement of the conversion option of the Convertible Bonds to fair value (note 20) and the Call Option over the Company's shares to fair value (note 18).*

*(b) Provision for ECL under ICBC guarantee (notes 14 and 25).*

*(c) Result of re-measurement of receivable from IRC under ICBC guarantee arrangements to fair value, net of US$4.0 million guarantee fee charges (note 25).*

*(d) Including US$2.4 million lifetime ECL recognised on origination of loans granted to IRC and US$0.8 million further impairment charges in relation to loans granted to IRC (note 25).*

### 10. Taxation

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| Current tax | | |
| Russian current tax | 19,861 | 24,357 |
| | 19,861 | 24,357 |
| Deferred tax | | |
| Origination/(reversal) of timing differences[a] | 36,628 | (12,553) |
| Total tax charge | 56,489 | 11,804 |

*(a) Including effect of foreign exchange movements in respect of deductible temporary differences of US$30.6 million (year ended 31 December 2017: US$(8.6) 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 profit before tax per the statement of profit or loss as follows:

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| Profit before tax | 82,418 | 48,945 |
| Less: share of results of associates | (15,480) | (35,208) |
| Profit before tax (excluding associates) | 66,938 | 13,737 |
| | | |
| Tax on profit (excluding associates) at the Russian corporation tax rate of 20% (2017: 20%) | 13,387 | 2,747 |
| Effect of the reduced corporation tax rate[a] | (354) | (2,034) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 1,161 | 912 |
| Tax effect of expenses that are not deductible for tax purposes | 1,191 | 3,043 |
| Tax effect of tax losses for which no deferred income tax asset was recognised[b] | 17,055 | 21,385 |
| Utilisation of previously unrecognised tax losses | (442) | (288) |
| Foreign exchange movements in respect of deductible temporary differences[c] | 30,618 | (8,602) |
| Effect of the reduced corporation tax rate on previously recognised deferred tax | – | (4,283) |
| Income not subject to tax[d] | (2,209) | – |
| Other adjustments | (3,918) | (1,076) |
| Tax charge for the period | 56,489 | 11,804 |

*(a) Under the Russian Federal Law 144-FZ dated 23 May 2016 taxpayers who are participants to the Regional Investment Projects ("RIP") have the right to apply the reduced corporation tax rate over the period until 2027, subject to eligibility criteria. In 2018 and 2017, LLC Albynskiy Rudnik has received tax relief as a RIP participant and was entitled to the reduced statutory corporation tax rate of 17%.*

*(b) Primarily relate to interest expense and central administration expenses incurred in the UK and loss on fair value change on financial guarantee fee (note 9) (2017: primarily relate to central administration expenses and interest expense incurred in the UK).*

*(c) Foreign exchange movements primarily 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.*

*(d) Primarily relate to the fair value income on re-measurement of the conversion option of the Convertible Bonds (note 9).*

Tax laws, regulations and court practice applicable to the Group are complex and subject to frequent change, varying interpretations and inconsistent and selective enforcement. There are a number of practical uncertainties associated with the application of relevant tax legislation and 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

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| Profit for the period attributable to equity holders of Petropavlovsk PLC | 24,493 | 37,006 |
| Interest expense on convertible bonds [a] | – | – |
| Profit used to determine diluted earnings per share | 24,493 | 37,006 |
| | No of shares | No of shares |
| Weighted average number of Ordinary Shares | 3,305,069,755 | 3,303,768,532 |
| Adjustments for dilutive potential Ordinary Shares [a] | - | - |
| Weighted average number of Ordinary Shares for diluted earnings per share | 3,305,069,755 | 3,303,768,532 |
| | US$ | US$ |
| Basic profit per share | 0.01 | 0.01 |
| Diluted profit per share | 0.01 | 0.01 |

*(a) Convertible bonds which could potentially dilute basic profit per ordinary share in the future are not included in the calculation of diluted profit per share because they were anti-dilutive for the year ended 31 December 2018 and 2017.*

## 12. Exploration and evaluation assets

| | Flanks of Pioneer US$'000 | Flanks of Albyn US$'000 | Flanks of Malomir US$'000 | Other US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 5,827 | 34,076 | 12,192 | 1,423 | 53,518 |
| Additions | 1,092 | 971 | – | 1,090 | 3,153 |
| Impairment [a] | – | – | (12,192) | – | (12,192) |
| Transfer to mining assets [b] | – | – | – | (1,364) | (1,364) |
| At 31 December 2018 | 6,919 | 35,047 | – | 1,149 | 43,115 |

*(a) Note 6*

*(b) Amounts capitalised in respect of limestone, an essential reagent the pressure oxidation process, and underground water deposits to be used for the POX Hub operations.*

| | Flanks of Pioneer US$'000 | Flanks of Albyn US$'000 | Flanks of Malomir US$'000 | Other [c] US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 1,750 | 33,949 | 12,148 | 1,423 | 49,270 |
| Additions | 5,592 | 127 | 44 | – | 5,763 |
| Transfer to mining assets | (1,515) | – | – | – | (1,515) |
| At 31 December 2017 | 5,827 | 34,076 | 12,192 | 1,423 | 53,518 |

*(c) Amounts capitalised in respect of limestone, an essential reagent the pressure oxidation process, and underground water deposits to be used for the POX Hub operations.*

### 13. Property, plant and equipment

| | Mining assets US$'000 | Non-mining assets US$'000 | Capital construction in progress[c] (US$'000 | Total US$'000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2017 | 1,821,764 | 174,476 | 330,394 | 2,326,634 |
| Additions | 34,725 | 2,048 | 49,383 | 86,156 |
| Interest capitalised[a] | – | – | 34,592 | 34,592 |
| Close down and restoration cost capitalised *(note 22)* | 1,793 | – | – | 1,793 |
| Transfer from exploration and evaluation assets *(note 12)* | 1,515 | – | – | 1,515 |
| Transfers from capital construction in progress[b] | 22,397 | 4,042 | (26,439) | – |
| Disposals | (8,856) | (4,731) | (72) | (13,659) |
| Reallocation and other transfers | 1,727 | (1,897) | 170 | – |
| Foreign exchange differences | – | 1,245 | 4 | 1,249 |
| At 31 December 2017[d] | 1,875,065 | 175,183 | 388,032 | 2,438,280 |
| Additions | 51,709 | 2,730 | 72,814 | 127,253 |
| Interest capitalised[a] | – | – | 33,666 | 33,666 |
| Close down and restoration cost capitalised *(note 22)* | 138 | – | – | 138 |
| Transfer from exploration and evaluation assets *(note 12)* | 1,364 | – | – | 1,364 |
| Transfers from capital construction in progress[b] | 108,479 | 582 | (109,061) | – |
| Disposals[e] | (53,744) | (4,526) | (3) | (58,273) |
| Disposals of subsidiaries | (7,400) | – | – | (7,400) |
| Reallocation and other transfers | (1,325) | (41) | 988 | (378) |
| Foreign exchange differences | – | (4,407) | (21) | (4,428) |
| At 31 December 2018[d] | 1,974,286 | 169,521 | 386,415 | 2,530,222 |
| Accumulated depreciation and impairment | | | | |
| At 1 January 2017 (restated) | 1,249,228 | 154,679 | 3,916 | 1,407,823 |
| Charge for the year (restated) | 102,446 | 2,708 | – | 105,154 |
| Disposals | (8,062) | (5,196) | – | (13,258) |
| Reallocation and other transfers | 192 | 2,213 | (2,405) | – |
| Foreign exchange differences | – | 1,014 | – | 1,014 |
| At 31 December 2017 (restated) | 1,343,804 | 155,418 | 1,511 | 1,500,733 |
| Charge for the year | 100,578 | 2,016 | – | 102,594 |
| Disposals | (52,818) | (4,410) | – | (57,228) |
| Disposals of subsidiaries | (7,400) | – | – | (7,400) |
| Reallocation and other transfers | (352) | (23) | (3) | (378) |
| Reversal of impairment *(note 6)* | (82,958) | (18,737) | – | (101,695) |
| Foreign exchange differences | – | (3,479) | – | (3,479) |
| At 31 December 2018 | 1,300,854 | 130,785 | 1,508 | 1,433,147 |
| Net book value | | | | |
| At 31 December 2017 (restated) | 531,261 | 19,765 | 386,521 | 937,547 |
| At 31 December 2018 | 673,432 | 38,736 | 384,907 | 1,097,075 |

*(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 9.3% (2017: 10%).*

*(b) Being costs primarily associated with continuous development of Malomir and Pioneer projects.*

*(c) Including US$345.8 million costs associated with the POX Hub project (31 December 2017: US$277.6 million).*

*(d) Including US$400.8 million of fully depreciated property, plant and equipment (31 December 2017: US$215.6 million).*

*(e) Including US$18.1 million of fully depreciated mining fleet that is not suitable for future use due to wear and tear, US$5.8 million of fully depreciated infrastructure that is not intended for future use, US$19.1 million disposals associated with closure of Pokrovskiy mine as the site was transformed into a key component of the POX Hub and US$8.1 million mining fleet parts replaced as part of capital repair and maintenance programme.*

## 14. Investment in associate

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| IRC Limited ('IRC') | 85,140 | 70,890 |
| | 85,140 | 70,890 |

Summarised financial information for those associates that are material to the Group is set out below.

| | IRC 2018 US$'000 | IRC 2017 US$'000 |
|---|---|---|
| Non-current assets | | |
| Exploration and evaluation assets | 7,607 | 7,259 |
| Property, plant and equipment | 533,446 | 458,624 |
| Other non-current assets | 15,185 | 5,486 |
| | 556,238 | 471,369 |
| Current assets | | |
| Cash and cash equivalents | 7,637 | 8,997 |
| Other current assets | 34,195 | 54,026 |
| | 41,832 | 63,023 |
| Current liabilities | | |
| Borrowings [(a), (b)] | (111,954) | (61,309) |
| Other current liabilities | (55,080) | (37,729) |
| | (167,034) | (99,038) |
| Non-current liabilities | | |
| Borrowings [(a)] | (100,915) | (162,078) |
| Other non-current liabilities | (22,501) | (33,722) |
| | 123,416 | 195,800 |
| Net assets | 307,620 | 239,554 |

*(a) Including US$158.8 million (2017: US$221.6 million) million under ICBC Facility and loans provided by the Group in the equivalent of US$54.0 million (2017: US$nil) (note 25).*

*(b) 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 IRC's mining operations at K&S. The facility is guaranteed by the Company (note 25) 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. On 27 February 2017, ICBC 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 a result, each of the repayment instalments due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 increased by US$8.5 million to an amount equal to US$29.75 million. The outstanding loan principal was US$169.6 million as at 31 December 2018 (2017: US$233.75 million).*

*The loan is carried at amortised cost with effective interest rate 6.8% per annum (2017: 6.41%). ICBC Facility Agreement contains certain financial covenants to which ICBC had agreed to grant a waiver until 31 December 2018, inclusive.*

*As at 31 December 2018 and 31 December 2017, 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.*

*On 20 March 2019, IRC repaid the outstanding loan principal and interest in full as set out below and terminated the ICBC Facility Agreement.*

*On 18 December 2018, IRC entered into two facility agreements for a loan in aggregate of US$240 million with Gazprombank (the "Gazprombank Facility"). The Gazprombank Facility will mature in March 2026 and consists of two tranches. The principal under the first tranche amounts to US$160 million with interest being charged at LIBOR+5.7% per annum and is repayable in equal quarterly payments during the term of the Gazprombank Facility, the final payment in December 2026. The principal under the second tranche amounts to US$80 million with interest being charged at LIBOR+7.7% per annum and is repayable in full at the end of the term, in December 2026. Interest charged on the drawn down amounts under the two tranches is payable in equal quarterly payments during the term of the Gazprombank Facility.*

*In March 2019, IRC drew down an aggregate of US$228.9 million on the Gazprombank Facility that were used to repay the amounts outstanding under ICBC facility of approximately US$169 million in full and the loans provided by the Group in the equivalent of approximately US$57 million in full, the remaining proceeds were to finance the K&S Project's working capital of approximately US$3 million. In April 2019, IRC has further drawn down US$4.5 million on the Gazprombank Facility.*

**14. Investments in associates** continued

| | IRC Year ended 31 December 2018 US$'000 | IRC Year ended 31 December 2017 US$'000 |
|---|---|---|
| Revenue | 151,549 | 109,265 |
| Net operating (expenses)/ income | (53,876) | 25,657 |
| Including: | | |
| Depreciation | (21,208) | (14,618) |
| Reversal of impairment of mining assets | 90,483 | 129,614 |
| Foreign exchange gains/(losses) | 4,554 | (859) |
| Impairment of financial assets | (7,741) | – |
| Investment income | 82 | 114 |
| Interest expense | (21,679) | (22,410) |
| Taxation | (130) | 590 |
| Profit for the period | 68,205 | 113,216 |
| Other comprehensive loss | (1,057) | (1,470) |
| Total comprehensive profit | 67,148 | 111,746 |
| | | |
| Group's share % | 31.1% | 31.1% |
| Group's share in profit for the period | 21,210 | 35,208 |
| Impairment of investment in associate | (5,730) | – |
| Share of results of associate | 15,480 | 35,208 |

*Impairment of investment in associate*
The Group undertook a review of impairment indicators of its investment in IRC. Detailed calculations of recoverable amounts, which are value-in-use calculations based on discounted cash flows, were prepared which concluded a US$5.7 million impairment was required as at 31 December 2018 (2017: US$nil).

**15. Inventories**

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Current | | |
| Construction materials | 6,267 | 6,792 |
| Stores and spares | 69,082 | 57,226 |
| Ore in stockpiles [(a), (b)] | 36,395 | 37,496 |
| Gold in circuit | 16,751 | 24,088 |
| Deferred stripping costs | 46,988 | 39,767 |
| Bullion in process | 606 | 391 |
| Flotation concentrate | 25,654 | – |
| Other | 4,101 | 6,892 |
| | 205,844 | 172,652 |
| Non-current | | |
| Ore in stockpiles [(a), (b), (c)] | 56,805 | 72,720 |
| | 56,805 | 72,720 |

*(a) As at 31 December 2018, ore in stockpiles include balances in the aggregate of US$10.1 million carried at net realisable value (2017: US$28.9 million).*
*(b) For details of ore stockpile impairments see note 6.*
*(c) Ore in stockpiles that is not planned to be processed within twelve months after the reporting period.*

## 16. Trade and other receivables

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Current | | |
| VAT recoverable | 20,474 | 20,438 |
| Advances to suppliers | 5,919 | 11,343 |
| Prepayments for property, plant and equipment | 7,233 | 5,809 |
| Trade receivables [(a)] | 13,389 | 9,297 |
| Contract assets | 3,307 | – |
| Guarantee fee receivable [(b)] | 6,829 | 4,681 |
| Other debtors [(c)] | 11,243 | 24,262 |
| | 68,394 | 75,830 |
| Non-current | | |
| Guarantee fee receivable [(b)] | – | 8,396 |
| Other | 547 | 535 |
| | 547 | 8,931 |

*(a) Net of provision for impairment of US$0.9 million (2017: US$0.2 million). Trade receivables are generally due for settlement between three and twelve months.*

*(b) Please refer to notes 14 and 25 for the details of ICBC guarantee arrangements. Measured at fair value as at 31 December 2019 (note 2.2) and considered Level 3 of the fair value hierarchy which valuation incorporates the following inputs:*

*– Assessment of the credit standing of IRC and yield on comparable bonds issued by mining companies of a similar credit standing;*

*– Share price and share price volatility of IRC as at 31 Dec 2018;*

*– Prospective terms of the proposed refinancing of IRC debt and the likelihood of this being achieved.*

*(c) Net of provision for impairment of US$1.7 million (2017: US$1.3 million).*

Other than receivables from IRC in the aggregate of US$2.1 million (2017: US$1.0 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 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

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Cash at bank and in hand | 10,682 | 8,109 |
| Short-term bank deposits | 15,470 | 3,306 |
| | 26,152 | 11,415 |

### 18. Derivative financial instruments

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Assets US$'000 | Liabilities US$'000 | Assets US$'000 | Liabilities US$'000 |
| Forward gold contracts – cash flow hedge [(a), (b), (c)] | – | (8,819) | – | (32,477) |
| Call Option over the Company's shares [(d)] | – | (1,136) | – | (3,097) |
| Conversion option [(e), (f)] | – | (2,411) | – | (14,110) |
| | – | (12,366) | – | (49,684) |

*(a) Forward contracts to sell an aggregate of 200,000 ounces of gold at an average price of US$1,252 per ounce are outstanding as at 31 December 2018 (31 December 2017: 400,000 ounces of gold at an average price of US$1,252 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 period to December 2019.*
*Gain and losses recognised in the hedging reserve in equity as at the reporting date will be recognised in profit or loss in the periods during which the hedged gold sale transactions affect profit or loss.*
*There was no ineffectiveness to be recorded from the cash flow hedge during the years ended 31 December 2018 and 2017.*

*(d) Cash settled call option issued in relation to 3.6 per cent. of the outstanding aggregate ordinary share capital in the Company exercisable between December 2018 and June 2019 at strike price of £0.068. Measured at fair value and considered as Level 3 of the fair value hierarchy which valuation incorporates the following inputs:*
*– historic share price volatility;*
*– historic GBP : US$ exchange rate volatility;*
*– conversion price;*
*– time to maturity; and*
*– risk free rate.*

*(e) Note 20.*

*(f) Measured at fair value and considered as Level 3 of the fair value hierarchy which valuation incorporates the following inputs:*
*– the Group's credit risk and implied credit spreads;*
*– historic share price volatility;*
*– historic GBP : US$ exchange rate volatility;*
*– dividend yield;*
*– conversion price;*
*– time to maturity; and*
*– risk free rate.*

### 19. Trade and other payables

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Current | | |
| Trade payables | 50,099 | 39,902 |
| Payables for property, plant and equipment | 5,242 | 10,389 |
| Advances from customers [(a)] | 131,752 | 826 |
| Advances received on resale contracts [(b)] | 5,432 | 1,029 |
| Accruals and other payables | 27,320 | 36,187 |
| | 219,845 | 88,333 |
| Non-current | | |
| Advances from customers [(c)] | 33,779 | – |
| | 33,779 | – |

*(a) The current advances from customers as at 31 December 2018 include US$86.0 million and US$44.0 million advance payments received from Gazprombank and Sberbank, respectively, under gold sales agreements. Advance payments are to be settled against physical delivery of gold produced by the Group in regular intervals over the period of up to twelve months from the reporting date based on the sales price prevailing at delivery that is determined with reference to LBMA fixing. For details of interest charged in relation to the aforementioned advances please refer to note 9.*

*(b) Amounts included in advances received on resale contracts at 31 December 2018 and 31 December 2017 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.*

*(c) The non-current advances from customers as at 31 December 2018 include US$33.8 million advance payments received from Gazprombank under gold sales agreements. Advance payments are to be settled against physical delivery of gold produced by the Group in regular intervals over the period after twelve months from the reporting date. based on the sales price prevailing at delivery that is determined with reference to LBMA fixing. For details of interest charged in relation to the aforementioned advances please refer to note 9.*

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

**20. Borrowings**

| | 2018<br>US$'000 | 2017<br>US$'000 |
|---|---|---|
| Borrowings at amortised cost | | |
| Notes [(a)] | 499,007 | 497,747 |
| Convertible bonds [(b)] | 95,170 | 91,590 |
| Bank loans [(c)] | – | 7,137 |
| | 594,177 | 596,474 |
| Amount due for settlement within 12 months | – | 7,137 |
| Amount due for settlement after 12 months | 594,177 | 589,337 |
| | 594,177 | 596,474 |

*(a) US$500 million Guaranteed Notes due for repayment on 14 November 2022 (the "Notes"), measured at amortised cost. The Notes were issued by the Group's wholly owned subsidiary Petropavlovsk 2016 Limited and are guaranteed by the Company and its subsidiaries JSC Pokrovskiy Rudnik, LLC Albynskiy Rudnik and LLC Malomirskiy Rudnik. The Notes have been admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange on 14 November 2017. The Notes carry a coupon of 8.125% payable semi-annually in arrears. The interest charged was calculated by applying an effective interest rate of 8.35%.*

*(b) Debt 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 conversion option of the US$100 million 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 2018, the fair value of debt component of the convertible bonds, considered as Level 2 of the fair value hierarchy, amounted to US$86.8 million (31 December 2017: US$102.1 million). Valuation incorporates the following inputs: the Group's credit risk and implied credit spreads, time to maturity and risk-free rate.*

*As at 31 December 2018, 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$89.2 million (31 December 2017: US$116.3 million).*

*(c) The weighted average interest rate during the year ended 31 December 2018 was 15.0% (2017: 9.3%).*

*As at 31 December 2018 and 2017, the carrying value of the bank loans approximated their fair value.*

*As at 31 December 2018 and 2017, there was no security and financial covenants attached to the bank loans.*

### 21. Deferred taxation

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| At 1 January | 72,380 | 92,396 |
| Deferred tax charged/(credited) to profit or loss[a] | 36,628 | (12,553) |
| Deferred tax charged/(credited) to equity | 4,376 | (7,505) |
| Exchange differences | (30) | 42 |
| At 31 December | 113,354 | 72,380 |
| Deferred tax liabilities | (113,354) | (72,380) |
| Net deferred tax liability | (113,354) | (72,380) |

*(a) Note 10.*

| | At 1 January 2018 US$'000 | Charged/ (credited) to profit or loss US$'000 | Charged directly to equity US$'000 | Exchange differences US$'000 | At 31 December 2018 US$'000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 79,665 | 37,846 | – | (82) | 117,429 |
| Inventory | 10,711 | 5,158 | – | (234) | 15,635 |
| Exploration and evaluation assets | 8,070 | (982) | – | – | 7,088 |
| Fair value adjustments | 6 | (6) | – | – | – |
| Other temporary differences | (1,494) | (6,351) | 4,376 | 286 | (3,183) |
| Tax losses carried forward[a] | (24,578) | 963 | – | – | (23,615) |
| | 72,380 | 36,628 | 4,376 | (30) | 113,354 |

*(a) Deferred tax recognised in relation to unused tax losses of LLC Malomirskiy Rudnik and LLC TEMI to the extent that it is either probable that future taxable profit will be available against which the unused tax losses can be utilised or there are sufficient taxable temporary differences.*

| | At 1 January 2017 (restated) US$'000 | Charged/ (credited) to profit or loss (restated) US$'000 | Credited directly to equity US$'000 | Exchange differences US$'000 | At 31 December 2017 (restated) US$'000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 89,028 | (9,422) | – | 59 | 79,665 |
| Inventory | 10,056 | 655 | – | – | 10,711 |
| Exploration and evaluation assets | 5,008 | 3,062 | – | – | 8,070 |
| Fair value adjustments | 129 | (123) | – | – | 6 |
| Other temporary differences | 7,811 | (1,783) | (7,505) | (17) | (1,494) |
| Tax losses carried forward[b] | (19,636) | (4,942) | – | – | (24,578) |
| | 92,396 | (12,553) | (7,505) | 42 | 72,380 |

*(b) Deferred tax recognised in relation to unused tax losses of LLC Malomirskiy Rudnik and LLC TEMI to the extent that it is either probable that future taxable profit will be available against which the unused tax losses can be utilised or there are sufficient taxable temporary differences.*

As at 31 December 2018, the Group did not recognise deferred tax assets in respect of the accumulated unused tax losses comprising US$595.4 million (2017: US$575.8 million) on the basis that there is no certainty about future taxable profit of relevant entities against which
the unused tax losses can be utilised or there are insufficient relevant taxable temporary differences. Tax losses of US$566.6 million (2017: US$531.0 million) arise in the UK and tax losses of US$28.8 million (2017: US$44.7 million) arise in Russia, both can be carried forward indefinitely.

As at 31 December 2018, the Group did not recognise deferred tax assets of US$2.6 million (2017: US$2.7 million) in respect of deductible temporary differences arising on property, plant and equipment and close down and restoration costs.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted
earnings associated with investments in its subsidiaries and associates 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 2018, statutory unremitted earnings comprised in aggregate US$845.3 million (2017: US$943.8 million).

## 22. Provision for close down and restoration costs

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| At 1 January | 21,004 | 19,152 |
| Unwinding of discount | 425 | 267 |
| Change in estimates [a] | 138 | 1,793 |
| Amounts charged against provision | (179) | (208) |
| At 31 December | 21,388 | 21,004 |

*(a) Primarily reflects the effect of change in the forecast the Russian Rouble to the US Dollar exchange rate and the inflation rate.*

The Group recognised provisions in relation to close down and restoration costs for the following mining operations:

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| POX Hub/ Pokrovskiy [a] | 3,256 | 3,195 |
| Pioneer | 2,941 | 2,876 |
| Malomir | 6,903 | 6,679 |
| Albyn | 8,288 | 8,254 |
| | 21,388 | 21,004 |

*(a) With the closure of Pokrovskiy mine in 2018, as the site was transformed into a key component of the POX Hub, the associated amounts of close down and restoration costs were attributed to the POX project accordingly.*

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 2019 and 2034, varying from mine site to mine site.

## 23. Share capital

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | No of shares | US$'000 | No of shares | US$'000 |
| Allotted, called up and fully paid | | | | |
| At 1 January | 3,303,768,532 | 48,920 | 3,303,768,532 | 48,920 |
| Issued during the period | 3,383,180 | 43 | – | – |
| At 31 December | 3,307,151,712 | 48,963 | 3,303,768,532 | 48,920 |

The Company has one class of ordinary shares which carry no right to fixed income.

## 24. Notes to the cash flow statement

### Reconciliation of profit before tax to operating cash flow

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| Profit before tax | 82,418 | 48,945 |
| Adjustments for: | | |
| Share of results of associate | (15,480) | (35,208) |
| Investment income | (3,775) | (760) |
| Interest expense | 29,520 | 25,905 |
| Other finance gains | (13,905) | (2,199) |
| Other finance losses | 32,354 | 28,470 |
| Share based payments | 416 | 144 |
| Depreciation | 102,236 | 104,800 |
| Impairment of exploration and evaluation assets | 12,192 | – |
| Impairment/(reversal of impairment) of ore stockpiles | 18,021 | (4,702) |
| Effect of processing previously impaired stockpiles | (10,496) | (12,948) |
| Provision for impairment of trade and other receivables | 1,435 | 364 |
| Impairment of gold in circuit | 2,124 | 3,890 |
| Effect of processing previously impaired gold in circuit | (3,384) | (1,315) |
| (Gain)/loss on disposals of property, plant and equipment | (862) | 67 |
| Foreign exchange (gains)/losses | (8,450) | 746 |
| Impairment of non-trading loans | – | 629 |
| Reversal of impairment of mining assets | (101,695) | – |
| Other non-cash items | (106) | (75) |
| Changes in working capital: | | |
| (Increase)/decrease in trade and other receivables | (18,510) | 26,515 |
| (Increase)/decrease in inventories | (26,054) | 4,323 |
| Increase in trade and other payables | 204,827 | 16,715 |
| Net cash generated from operations | 282,826 | 204,306 |

### Reconciliation of cash flows used to purchase property, plant and equipment

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Additions to property, plant and equipment | 127,253 | 86,156 |
| Non-cash additions to property, plant and equipment: | | |
| Transfer from materials | (747) | (600) |
| Capitalised depreciation | (293) | (207) |
| Finance lease additions | (55) | – |
| | 126,158 | 85,349 |
| Associated cash flows: | | |
| Purchase of property, plant and equipment | 131,213 | 82,295 |
| Increase in prepayments for property, plant and equipment | (1,419) | (5,115) |
| (Decrease)/increase in payables for property, plant and equipment | (5,147) | 9,431 |
| Cash movements presented in other cash flow lines: | | |
| Changes in working capital | 1,511 | (1,262) |
| | 126,158 | 85,349 |

### Non-cash transactions

An equivalent of US$8.0 million of VAT recoverable was offset against profit tax during the year ended 31 December 2018. An equivalent of US$14.5 million of VAT recoverable was offset against additional mining tax (note 6) during the year ended 31 December 2017. There were no other significant non-cash transactions during the years ended 31 December 2018 and 2017.

## 25. Related parties

### Related parties the Group entered into transactions with during the reporting period

PJSC Asian-Pacific Bank ('Asian-Pacific Bank'), LLC Insurance Company Helios Reserve ('Helios') and Peter Hambro Limited were considered to be related parties as members of key management had an interest in and collectively exercise significant influence over these entities until 22 June 2017 when the Group lost significant influence over these companies.

The Petropavlovsk Foundation for Social Investment (the 'Petropavlovsk Foundation') is considered to be a related party due to the participation of the key management of the Group in the governing board of the Petropavlovsk Foundation and their presence in its board of guardians.

IRC Limited and its subsidiaries (Note 32) are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties which the Group entered into during the years ended 31 December 2018 and 2017 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 | |
|---|---|---|---|---|
| | 2018 US$'000 | 2017 US$'000 | 2018 US$'000 | 2017 US$'000 |
| Entities in which key management have interest and exercise a significant influence or control | – | 3 | 764 | 1,336 |
| IRC Limited and its subsidiaries | 164 | 85 | 681 | 2,062 |
| | 164 | 88 | 1,445 | 3,398 |

During the year ended 31 December 2018, the Group made US$0.4 million charitable donations to the Petropavlovsk Foundation (2017: US$0.2 million).

The outstanding balances with related parties at 31 December 2018 and 2017 are set out below.

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|
| | 2018 US$'000 | 2017 US$'000 | 2018 US$'000 | 2017 US$'000 |
| Entities in which key management have interest and exercise a significant influence or control | 1,556 | 236 | – | – |
| IRC Limited and its subsidiaries | 2,078 | 2,099 | 976 | 527 |
| | 3,634 | 2,335 | 976 | 527 |

In March 2018, the Group entered into a transaction with the member of key management personnel to purchase the office building and land, currently subject to an operating lease arrangement. The aggregate consideration payable is US$3.5 million, of which US$1.5 million of advance payments were paid by the Group as at 31 December 2018.

### Financing transactions

The Group has charged a fee for the provision of the guarantee to IRC under ICBC Facility, equal to 1.75% on the ICBC outstanding loan principal (note 14), which amounted to US$4.0 million during the year ended 31 December 2018 (2017: US$4.1 million).

The guarantee fee contractual balance outstanding amounted to US$10.3 million (2017: US$6.4 million) which corresponding fair value was US$6.8 million (2017: US$10.5 million).

In June 2018, the Group provided a Rouble denominated unsecured loan to IRC in the amount of RUB1,878 million (an equivalent of US$29.75 million). The loan carried interest of 12% per annum and was repaid on 21 March 2019. The loan was recognised net of lifetime ECL of US$0.5 million at inception. The Group recognised further US$0.8 million impairment based on ECL model.

In December 2018, the Group provided a dollar denominated unsecured loan to IRC in the amount of US$27.0 million. The loan carried interest of 16% per annum and was repaid on 21 March 2019. The loan was recognised net of lifetime ECL of US$1.9 million at inception.

In March 2018, the Group entered into a loan agreement with Dr Pavel Maslovskiy. At 31 December 2018, the loan principal outstanding amounted to an equivalent of US$0.2 million. Interest charged during the year ended 31 December 2018 comprised an equivalent of US$0.01 million.

## 25. Related parties continued

### Key management compensation

Key management personnel, comprising a group of 16 individuals during the period (2017: 13), 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.

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Wages and salaries | 7,761 | 6,285 |
| Pension costs | 136 | 176 |
| Share-based compensation | 404 | 136 |
| | 8,301 | 6,597 |

## 26. Analysis of Net Debt◆

| | At 1 January 2018 US$'000 | Net cash movement US$'000 | Exchange movement US$'000 | Non-cash changes US$'000 | At 31 December 2018 US$'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 11,415 | 17,719 | (2,982) | – | 26,152 |
| Borrowings | (596,474) | 57,845 [a] | – | (55,548) | (594,177) |
| Net Debt◆ | (585,059) | 75,564 | (2,982) | (55,548) [b] | (568,025) |

*(a) Being US$53.8 interest paid on borrowings and US$4.0 million repayment of bank loan.*
*(b) Being amortisation of borrowings (note 20).*

| | At 1 January 2017 US$'000 | Net cash movement US$'000 | Exchange movement US$'000 | Non-cash changes US$'000 | At 31 December 2017 US$'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 12,642 | (1,605) | 378 | - | 11,415 |
| Borrowings | (611,212) | 87,191 [c] | - | (72,453) | (596,474) |
| Net Debt◆ | (598,570) | 85,586 | 378 | (72,453) [d] | (585,059) |

*(c) Including US$49.1 million interest paid on borrowings, US$495.0 million net proceeds from the issue of Notes (note 20), US$525.8 million repayment of bank loans and US7.4 million debt transaction costs.*
*(d) Being amortisation of borrowings (note 20) and the effect of the bank debt refinancing.*

## 27. 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 26) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2018, the capital comprised US$1.2 billion (2017: 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.

*◆ Net Debt is an Alternative Performance Measure (APM), which is not defined or calculated in accordance with IFRS. Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

## 27. Financial instruments and financial risk management continued

### Categories of financial instruments

| | 2018 US$'000 | 2017 [a] US$'000 |
|---|---|---|
| Financial assets | | |
| Financial assets at amortised cost | | |
| Cash and cash equivalents | 26,152 | 11,415 |
| Trade receivables and contract assets | 13,389 | 9,297 |
| Loans granted to an associate | 50,966 | – |
| Other financial assets at amortised cost | 5,271 | – |
| Other loans and receivables | – | 18,478 |
| Financial assets at FVPL | | |
| Guarantee fee receivable | 6,829 | – |
| Listed equity securities | 590 | – |
| Available-for-sale investments | – | 347 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | | |
| Trade and other payables | 58,343 | 53,695 |
| Borrowings | 594,177 | 596,474 |
| Derivative financial instruments | 12,366 | 49,684 |
| Financial guarantee contract | 37,387 | 8,603 |

*(a) Please refer to note 2.2 for the impact of adopting IFRS 9.*

### 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 has borrowings with fixed rate, which 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 | |
|---|---|---|---|---|
| | 2018 US$'000 | 2017 US$'000 | 2018 US$'000 | 2017 US$'000 |
| Russian Roubles | 66,285 | 40,101 | 54,757 | 55,740 |
| US Dollars [a] | 4,652 | 3,101 | 5,886 | 3,768 |
| GB Pounds Sterling | 1,905 | 2,560 | 1,033 | 3,173 |
| EUR | 22 | – | 2,301 | 763 |
| Other currencies | 159 | – | 312 | 313 |

*(a) US Dollar denominated monetary assets and liabilities in Group companies with Rouble functional currency.*

### 27. Financial instruments and financial risk management continued

The table set out below illustrates the Group's profit sensitivity to changes in exchange rates by 25% (2017: 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.

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Russian Rouble currency impact | 2,882 | 3,910 |
| US Dollar currency impact | 309 | 167 |
| GB Pounds Sterling currency impact | 218 | 153 |
| EUR currency impact | 570 | 191 |
| Other currencies | 38 | 78 |

**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 Group has loans advanced to its associate, IRC, with a carrying value at 31 December 2018 of US$51.0 million, net of expected credit losses (2017: US$nil).

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.

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 reporting date are cash and cash equivalents held with the counterparties as set out below.

| Counterparty | Credit rating | Carrying amount at 31 December 2018 US$'000 | Carrying amount at 31 December 2017 US$'000 |
|---|---|---|---|
| VTB | BB+ | 14,841 | 6,559 |
| Citibank | AA- | 8,011 | – |
| Raiffeisen Bank | BBB- | 872 | – |
| AVANGARD | – | 764 | 1,436 |
| Sberbank | BBB- | 598 | 914 |
| Barclays | A | 337 | 660 |
| Asian-Pacific Bank | CCC | 266 | 78 |
| Bank of Cyprus | B- | 145 | 11 |
| Alfa-Bank | BB+ | 3 | 7 |
| UBS | A+ | – | 1,493 |

**Commodity price risk**

The Group generates most of its revenue from the sale of gold. The Group's policy is to sell its products at the prevailing market price. In 2018 and 2017, 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 opposite 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 statement of financial position. The contractual maturity is based on the earliest date on which the Group may be required to pay.

## 27. Financial instruments and financial risk management continued

| | 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 |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Borrowings | | | | | |
| - Convertible bonds | – | – | 100,000 | – | – |
| - Notes | – | – | – | – | 500,000 |
| Future interest payments [(a)] | 2,250 | 47,375 | 42,875 | 40,625 | 40,625 |
| Trade and other payables | 31,506 | 26,837 | – | – | – |
| | 33,756 | 74,212 | 142,875 | 40,625 | 540,625 |
| 2017 | | | | | |
| Borrowings | | | | | |
| - Convertible bonds | – | – | – | 100,000 | – |
| - Notes | – | – | – | – | 500,000 |
| - Loans | – | 4,006 | – | – | – |
| Future interest payments [(a)] | 2,395 | 51,229 | 49,625 | 42,875 | 81,250 |
| Trade and other payables | 30,438 | 23,257 | – | – | – |
| | 32,833 | 78,492 | 49,625 | 142,875 | 581,250 |

*(a) 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.*

## 28. Operating lease arrangements

### The Group as a Lessee

The Group incurred rental expense, primarily associated with rent of office premises and rent of mining fleet, as set out below.

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year | 3,757 | 5,256 |

At the reporting date, the Group had outstanding commitments for future minimum lease payments under a non-cancellable operating lease for office premises and vehicles, which fall due as follows:

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Expiring: | | |
| Within one year | 929 | 369 |
| In two to five years | 468 | 123 |
| | 1,397 | 492 |

### The Group as a Lessor

The Group earned property rental income during the year of US$0.7 million (2017: US$0.7million) on buildings owned by its subsidiary Irgiredmet.

### 29. Capital commitments

At 31 December 2018, the Group had entered into contractual commitments in relation to the acquisition of property, plant and equipment amounting to US$9.5 million (31 December 2017: US$19.1 million) including US$6.8 million in relation to POX Hub project (31 December 2017: US$17.6 million).

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

On 14 December 2015, the Group entered into an investment agreement with the Russian Ministry of Far East Development (the 'Investment Agreement'). The Investment Agreement involves provision of RUB5.5billion (an equivalent to c.US$79 million as at 31 December 2018) 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 from 2015 to 2019.
The funds are passed through the Group to the joint-stock company Far East Grid Distribution Company ('DRSK'), which is required 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 is 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.

During 2018, the Group did not receive and made no transfers of funds under the Investment Agreement (2017: the Group received an aggregate RUB1.8 billion (an equivalent to US$31.2 million) in funding and transferred these funds to DRSK).

### 30. Subsequent events

*Refinancing of the ICBC facility*

Following the approval by the Company shareholders at a General Meeting held on 12 March 2019, to guarantee the obligations of K&S under the Gazprombank Facility, the refinancing of the ICBC Facility has been completed.

IRC entered into a new US$240 million facility with Gazprombank. In March 2019, IRC drew down an aggregate of US$228.9 million on the Gazprombank Facility that were used to repay the amounts outstanding under ICBC Facility of approximately US$169 million in full, the two loans provided by the Group in the equivalent of approximately US$57 million in full and to finance the K&S Project's working capital of approximately US$3 million. The remaining proceeds from the Gazprombank Facility are to be used to repay part of the guarantee fee of US$6 million owed by IRC to the Group in respect of the guarantee of the ICBC Facility with the remaining guarantee fee outstanding of approximately US$5 million payable no later than 31 March 2020.
In April 2019, IRC has further drawn down US$4.5 million on the Gazprombank Facility.

A new guarantee was issued by the Group over part of the Gazprombank Facility, the guarantee mechanism is implemented through a series of five guarantees that fluctuate in value through the eight-year life of the loan, with the possibility of the initial US$160 million principal amounts guaranteed reducing to US$40 million within two to three years, subject to certain conditions being met. For the final two years of the Gazprombank Facility, the guaranteed amounts will increase to US$120 million to cover the final principal and interest repayments.

### 31. Reconciliation of non-GAAP measures (unaudited)

| | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|
| Profit for the period | 25,929 | 37,141 |
| Add/(less): | | |
| Investment income | (3,775) | (760) |
| Interest expense | 29,520 | 25,905 |
| Other finance gains | (13,905) | (2,199) |
| Other finance losses | 32,354 | 28,470 |
| Foreign exchange (gains)/losses | (8,450) | 746 |
| Accrual for additional mining tax [(a)] | – | 19,852 |
| Taxation | 56,489 | 11,804 |
| Depreciation | 102,236 | 104,800 |
| Reversal of impairment of mining assets and in-house service | (101,695) | – |
| Impairment of exploration and evaluation assets | 12,192 | – |
| Impairment/(reversal of impairment) of ore stockpiles | 18,021 | (4,702) |
| Impairment of gold in circuit | 2,125 | 3,890 |
| Impairment of non-trading loans | – | 629 |
| Share of results of associates [(b)] | (8,065) | (28,744) |
| Underlying EBITDA◆ | 142,976 | 196,832 |

*(a) Amounts of mining tax for the six-month period to 31 December 2016, interest and penalties settled by the Group in 2017 following unfavourable court decisions.*

*(b) Group's share of interest expense, investment income, other finance gains and losses, foreign exchange gains/losses, taxation, depreciation and impairment/reversal of impairment recognised by the associate and impairment recognised against investment in the associate (note 14).*

*◆ Net Debt is an Alternative Performance Measure (APM), which is not defined or calculated in accordance with IFRS. Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

### 32. 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[(a)] 31 December 2018 | Proportion of shares held by Petropavlovsk PLC[(a)] 31 December 2017 | Proportion of shares held by the Group[(a)] 31 December 2018 | Proportion of shares held by the Group[(a)] 31 December 2017 |
|---|---|---|---|---|---|---|
| **Subsidiary** | | | | | | |
| JSC Management Company Petropavlovsk | Russia | Management company | 100% | 100% | 100% | 100% |
| Petropavlovsk 2010 Limited | Jersey | Finance company | 100% | 100% | 100% | 100% |
| Petropavlovsk 2016 Limited | Jersey | Finance company | 100% | 100% | 100% | 100% |
| JSC Pokrovskiy mine | Russia | Gold exploration and production | 19.37% | 19.37% | 99.38% | 99.38% |
| LLC Malomirskiy Rudnik | Russia | Gold exploration and production | – | – | 99.94% | 99.94% |
| 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% |
| LLC TEMI | Russia | Gold exploration and production | – | – | 75% | 75% |
| LLC AGPK | Russia | Gold exploration and production | – | – | 99.38% | 99.38% |
| LLC Perspektiva DV | Russia | Gold exploration and production | – | – | 99.94% | – |
| LLC Vostok Geologiya | Russia | Gold exploration and production | – | – | 99.94% | – |
| Universal Mining Inc. | Guyana | Gold exploration and production | – | – | 100% | 100% |
| LLC Kapstroi | Russia | Construction services | – | – | 100% | 100% |
| LLC NPGF Regis | Russia | Exploration services | – | – | 100% | 100% |
| CJSC ZRK Dalgeologiya | Russia | Exploration services | – | – | 99.38% | 99.38% |
| 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 | – | – | 99.38% | 99.38% |
| | | | | | | |
| **Associate** | | | | | | |
| IRC Limited[(b)] | HK | Management and holding company | – | – | 31.10% | 31.10% |

*(a) In the ordinary class of shares.*

*(b) IRC Limited and its principal subsidiary and joint venture undertakings.*

Strategic report

Governance

Financial statements

| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | Proportion of shares held by Petropavlovsk PLC [a] 31 December 2018 | Proportion of shares held by Petropavlovsk PLC [a] 31 December 2017 | Proportion of shares held by the Group [a] 31 December 2018 | Proportion of shares held by the Group [a] 31 December 2017 |
|---|---|---|---|---|---|---|
| **IRC and its principal subsidiary and joint venture undertakings ('IRC')** | | | | | | |
| IRC Limited | HK | Management and holding company | – | – | 31.10% | 31.10% |
| *Principal subsidiaries of IRC* | | | | | | |
| LLC Petropavlovsk-Iron Ore | Russia | Management company | – | – | 31.10% | 31.10% |
| LLC Olekminsky Rudnik | Russia | Iron ore exploration and production | – | – | 31.10% | 31.10% |
| LLC KS GOK | Russia | Iron ore exploration and production | – | – | 31.10% | 31.10% |
| LLC Garinsky Mining & Metallurgical Complex | Russia | Iron ore exploration and production | – | – | 30.97% | 30.97% |
| LLC Kostenginskiy GOK | Russia | Iron ore exploration and production | – | – | 31.10% | 31.10% |
| LLC Orlovsko-Sokhatinskiy Rudnik | Russia | Iron ore exploration and production | – | – | 31.10% | 31.10% |
| JSC Giproruda | Russia | Engineering services | – | – | 21.85% | 21.85% |
| LLC SHMTP | Russia | Infrastructure project | – | – | 31.10% | 31.10% |
| LLC Amursnab | Russia | Procurement services | – | – | 31.07% | 31.07% |
| Heilongjiang Jiatal Titanium Co., Limited | China | Titanium sponge project | – | – | 31.10% | 31.10% |
| LLC Uralmining | Russia | Iron ore exploration and production | – | – | 31.10% | 31.10% |
| LLC Gorniy Park | Russia | Molybdenym project | – | – | 18.75% | 18.75% |
| *Joint ventures of IRC* | | | | | | |
| Heilongjiang Jianlong Vanadium Industries Co., Limited | China | Vanadium project | – | – | 14.31% | 14.31% |

*(a) In the ordinary class of shares.*

## 33. 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 2018 is disclosed below. The Group's principal subsidiaries and other significant investments are set out in note 32.

| Name of undertaking | Country of incorporation | Proportion of shares held by the Group[a] | Registered address |
|---|---|---|---|
| **Subsidiaries** | | | |
| Eponymousco Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Victoria Resources Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Petropavlovsk Mining Treasury UK Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Petropavlovsk Rouble Treasury Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Petropavlovsk Dollar Treasury Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Petropavlovsk 2010 Limited | Jersey | 100% | 13-14 Esplanade, St. Helier, JE1 1EE |
| Petropavlovsk 2016 Limited | Jersey | 100% | 13-14 Esplanade, St. Helier, JE1 1EE |
| Petropavlovsk Group Finance Limited | Guernsey | 100% | PO Box 409, Elizabeth House, Ruette Braye, St. Peter Port, GY1 3WA |
| JSC Management Company Petropavlovsk | Russia | 100% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| JSC Pokrovskiy mine | Russia | 99.38% | 676150, Amur Region, Magdagachinskiy District, Tygda Village, Sovetskaya Street, 17 |
| LLC Malomirskiy Rudnik | Russia | 99.94% | 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 TEMI | Russia | 75% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC AGPK | Russia | 99.38% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC Perspektiva DV | Russia | 99.94% | 680021, Khabarovskiy Region, Khabarovsk, Vladivostokskaya Street, 22, build.3, office 11 |
| LLC Vostok Geologiya | Russia | 99.94% | 680021, Khabarovskiy Region, Khabarovsk, Vladivostokskaya Street, 22, build.3, office 9 |
| 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 | 99.38% | 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 | 99.38% | 676244, Amur Region, Zeya, Zolotogorskoe Shosse, 6 |
| Universal Mining Inc. | Guyana | 100% | Lot 8 Pere Street, Kitty, Georgetown |
| Petropavlovsk (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 |
| **Associates** | | | |
| IRC Limited[b] | 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 |

| Name of undertaking | Country of incorporation | Proportion of shares held by the Group[(a)] | Registered address |
|---|---|---|---|
| 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 Orlovsko-Sokhatinskiy Rudnik | Russia | 31.10% | 675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19 |
| JSC Giproruda | Russia | 21.85% | St. Petersburg, Leninskiy Prospect,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 | 31.09% | 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, Beijing |

*(a) In the ordinary class of shares.*

*(b) IRC Limited and its principal subsidiary and joint venture undertakings.*

# Company Balance Sheet

As at 31 December 2018

| | note | 31 December 2018 US$'000 | 31 December 2017 US$'000 |
|---|---|---|---|
| Fixed assets | | | |
| Tangible assets | | 20 | 33 |
| Investments | 3 | 790,409 | 775,657 |
| | | 790,429 | 775,690 |
| Current assets | | | |
| Debtors: due within one year | 4 | 1,144,420 | 1,123,900 |
| Debtors: due after one year | 4 | – | 8,396 |
| Cash at bank and in hand | | 8,365 | 2,200 |
| | | 1,152,785 | 1,134,496 |
| Creditors: amounts falling due within one year | 5 | (873,324) | (803,142) |
| Net current assets | | 279,461 | 331,354 |
| Total assets less current liabilities | | 1,069,890 | 1,107,044 |
| Derivative financial liability | | (3,547) | (17,207) |
| Creditors: amounts falling due after more than one year | 5 | (639,624) | (567,484) |
| Net assets | | 426,719 | 522,353 |
| Capital and reserves | | | |
| Share capital | | 48,963 | 48,920 |
| Share premium | | 518,142 | 518,142 |
| Other reserves | | 228 | (2,560) |
| Profit and loss account | | (140,614) | (42,149) |
| Shareholders' funds | | 426,719 | 522,353 |

The loss after tax for the year of the Company was US$42.2 million (2017: loss after tax of US$35.6 million).

The accompanying notes are an integral part of this balance sheet.

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 205 to 209 were approved by the Directors on 24 April 2019 and signed on their behalf by

**Sir Roderic Lyne**
Director

**Dr Pavel Maslovskiy**
Director

# Company Statement of Changes in Equity

For the year ended 31 December 2018

| | Share capital [a] US$'000 | Share premium [a] US$'000 | Other reserves US$'000 | Retained earnings US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2017 | 48,920 | 518,142 | (1,946) | (6,542) | 558,574 |
| Loss for the year | – | – | – | (35,607) | (35,607) |
| Deferred share awards | – | – | 144 | – | 144 |
| Revaluation of available-for-sale investments | – | – | (758) | – | (758) |
| Balance at 1 January 2018 | 48,920 | 518,142 | (2,560) | (42,149) | 522,353 |
| Impact of adopting IFRS 9 [b] | – | – | 2,705 | (56,541) | (53,836) |
| Loss for the year | – | – | – | (42,214) | (42,214) |
| Deferred share awards | 43 | – | 83 | 290 | 416 |
| Balance at 31 December 2018 | 48,963 | 518,142 | 228 | (140,614) | 426,719 |

*(a) Please see note 23 to the consolidated financial statements.*

*(b) Please see note 2.9 for the details of adoption of IFRS 9.*

# Notes to the Company Financial Statements

For the year ended 31 December 2018

**1. Basis of preparation**

Petropavlovsk PLC (the 'Company') is a public company limited by shares, incorporated and registered in England and Wales. The address of the registered office is 11 Grosvenor Place, London SW1X 7HH.

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.

Investments, other than investments in subsidiary undertakings and joint ventures, are measured at fair value. Changes to the fair value of other investments are recognised through profit or loss.

**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 are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any impairment.

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.

**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, are recognised at fair value at inception 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.

**2.9 Adoption of new and revised standards and interpretations**
The impact of adoption of IFRS 9 is detailed in note 2.2 to the consolidated financial statements.

The impact of the impairment models changes on Company-specific financial assets on the date of initial application is set out below:

| | 31 December 2017 US$'000 | 1 January 2018 US$'000 | Transition adjustment US$'000 |
|---|---|---|---|
| Owed by Group companies | 1,116,939 | 1,068,939 | (48,000) |

On initial application of IFRS 9, the Company recognised an additional provision for expected credit losses on amounts owed by Group companies of US$48 million.

The impact of adoption of IFRS 16 is detailed in note 2.2 to the consolidated financial statements. The Company expects to recognise right-of-use assets of approximately US$0.9 million and corresponding lease liabilities.

**2.10 Areas of judgement in applying accounting policies and key sources of estimation uncertainty**
When preparing these 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 (note 3 to the consolidated financial statements).

**3. Investments**

| | Investments in Group companies US$'000 | Other investments US$'000 | Total US$'000 |
|---|---|---|---|
| Cost | | | |
| At 1 January 2018 | 2,134,968 | 343 | 2,135,311 |
| Additions | 303 | – | 303 |
| Fair value change | – | 244 | 244 |
| At 31 December 2018 | 2,135,271 | 587 | 2,135,858 |
| Provision for impairment | | | |
| At 1 January 2018 | (1,359,654) | – | (1,359,654) |
| Charge for the year | 14,205[a] | – | 14,205 |
| At 31 December 2018 | (1,345,449) | – | (1,345,449) |
| Net book value | | | |
| At 1 January 2018 | 775,314 | 343 | 775,657 |
| At 31 December 2018 | 789,822 | 587 | 790,409 |

*(a) Reversal of impairment to reflect changes in the value of the underlying investment in IRC Limited (note 14 to the consolidated financial statements).*

Details of the Company's subsidiary undertakings at 31 December 2018 are provided in note 32 to the consolidated financial statements.

**4. Debtors**

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Owed by Group companies[a] | 1,134,845 | 1,116,939 |
| VAT recoverable | 2,021 | 2,053 |
| Other debtors | 7,554 | 13,304 |
| | 1,144,420 | 1,132,296 |
| | | |
| Due within one year | 1,144,420 | 1,123,900 |
| Due after more than one year | – | 8,396 |
| | 1,144,420 | 1,132,296 |

*(a) Net of provision for impairment of US$41.3 million (2017: nil).*

## 5. Creditors

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Due to Group companies | 1,469,066 | 1,342,638 |
| Bank loans[a] | – | 7,137 |
| Trade creditors | 682 | 1,362 |
| Accruals and other creditors | 43,200 | 19,489 |
| | 1,512,948 | 1,370,626 |
| | | |
| Due within one year | 873,324 | 803,142 |
| Due after more than one year | 639,624 | 567,484 |
| | 1,512,948 | 1,370,626 |

*(a) Please see note 20 to the consolidated financial statements.*

## 6. Taxation

As at 31 December 2018, the Company has tax losses available to carry forward in the amount of US$300.7 million (2017: US$274.4 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:

| | 2018 US$'000 | 2017 US$'000 |
|---|---|---|
| Due: | | |
| Within one year | 468 | 369 |
| Within two to five years | 468 | 123 |
| | 936 | 492 |

## 9. Directors' remuneration

There was one Executive Director who held office at the end of the year (2017: two Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 121 to 138 of this Annual Report.

## 10. Subsequent events

On 11 April 2019 it was resolved that the principal subsidiary of the Company would distribute a dividend in the amount of equivalent of US$36.6 million.

# The Use and Application of Alternative Performance Measures (APMs)

Throughout this Annual Report, when discussing the Group's financial performance, reference is made to APMs.

Each of the APMs is defined and calculated by the Group and as such they are non-IFRS measures because they may include or exclude certain items that an IFRS measure ordinarily would or would not take into account. APMs should not be regarded as an alternative or substitute for the equivalent measures calculated and presented in accordance with IFRS but instead should be seen as additional information provided to investors to enable the comparison of information between different reporting periods of the Group.

Although the APMs used by the Group may be calculated in a different manner and defined differently by other peers in the precious metals mining sector (despite being similar in title), they are nonetheless relevant and commonly used measures for the industry in which Petropavlovsk operates. These and similar measures are used widely by certain investors, analysts and other interested parties as supplemental measures of financial performance.

Some of the APMs form part of the Group's Key Performance Indicators (KPIs), which are used to monitor progress and performance against strategic objectives and to benchmark the performance of the business each year.

A discussion of the relevance of each APM as well as a description of how they are calculated is set out below, with reconciliation to IFRS equivalents from the consolidated IFRS financial statements (Consolidated Statement of Profit or Loss (SPL), Consolidated Statement of Financial Position (SFP), Consolidated Statement of Cash Flows (SCF) and the notes to the consolidated IFRS financial statements).

**Total Cash Costs (TCC)**

**Definition**

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

**Calculation**

TCC are calculated by the Group as operating cash costs less co-product revenue and cost of flotation concentrate. TCC per oz are calculated as total cash costs divided by the ounces of gold sold. TCC per oz are presented on a segment basis.

Operating cash costs are defined by the Group as operating cash expenses plus refinery and transportation costs, other taxes, mining tax and the amortisation of deferred stripping costs. This also equates to the Group's segment result as reported under IFRS plus each segment's share of results of associates, loss/gain on disposal of subsidiaries, impairment of ore stockpiles and gold in circuit, impairment of exploration and evaluation assets, impairment of mining assets, impairment of non-trading loans, central administration expenses, depreciation and accrual for additional mining tax minus each segment's revenue from external customers. Operating cash costs are presented on a segment basis.

Operating cash expenses are defined by the Group as the total of staff costs, materials, fuel, electricity, other external services, other operating expenses, and the movement in ore stockpiles, work in progress and bullion in process attributable to gold production (excluding deferred stripping costs).
The main cost drivers affecting operating cash expenses are stripping ratios, production volumes of ore mined / processed, recovery rates, cost inflation and fluctuations in the rouble to US dollar exchange rate.

Other companies may calculate this measure differently.

**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 operating cash costs and cost per tonne mined and processed to identify where and how efficiencies may be made.

**Reconciliation**

The tables below provide a reconciliation between operating expenses and total cash costs to calculate the cash cost per ounce sold for relevant periods.

| 2018 | Ref | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Operating expenses | SPL | | | | | | 388,643 |
| Deduct: | | | | | | | |
| Foreign exchange gains | note 6 | | | | | | 8,450 |
| Depreciation | note 6 | | | | | | (102,236) |
| Reversal of impairment of mining assets | note 6 | | | | | | 101,695 |
| Impairment of exploration and evaluation assets | note 6 | | | | | | (12,192) |
| Impairment of ore stockpiles | note 6 | | | | | | (18,021) |
| Impairment of gold in circuit | note 6 | | | | | | (2,125) |
| Central administration expenses | note 6 | | | | | | (39,195) |
| Operating cash costs | note 4 | 108,466 | 8,667 | 63,913 | 112,687 | 31,286 | 325,019 |
| Deduct: | | | | | | | |
| Corporate and other segment | note 4 | | | | | (31,286) | (31,286) |
| Deduct: silver revenue | note 4 | (591) | (29) | (61) | (160) | – | (841) |
| Deduct: cost of flotation concentrate | note 4 | – | – | (2,558) | – | – | (2,558) |
| Total Cash Costs | | 107,875 | 8,638 | 61,294 | 112,527 | – | 290,334 |
| | | | | | | | |
| Total ounces sold | oz | 135,001 | 6,442 | 77,448 | 150,720 | | 369,611 |
| Total Cash Cost per ounce sold | US$/oz | 799 | 1,341 | 791 | 747 | | 786 |

| 2017 | Ref | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Operating expenses | SPL | | | | | | 522,267 |
| Deduct: | | | | | | | |
| Foreign exchange losses | note 6 | | | | | | (746) |
| Accrual for additional mining tax | note 6 | | | | | | (19,852) |
| Depreciation | note 6 | | | | | | (104,800) |
| Reversal of impairment of ore stockpiles | note 6 | | | | | | 4,702 |
| Impairment of gold in circuit | note 6 | | | | | | (3,890) |
| Impairment of non-trading loans | note 6 | | | | | | (629) |
| Central administration expenses | note 6 | | | | | | (39,944) |
| Operating cash costs | note 4 | 127,657 | 39,988 | 61,079 | 98,354 | 30,030 | 357,108 |
| Deduct: | | | | | | | |
| Corporate and other segment | note 4 | | | | | (30,030) | (30,030) |
| Deduct: silver revenue | note 4 | (743) | (121) | (42) | (185) | - | (1,091) |
| Total Cash Costs | | 126,914 | 39,867 | 61,037 | 98,169 | - | 325,987 |
| | | | | | | | |
| Total ounces sold | oz | 160,421 | 32,250 | 65,678 | 181,485 | | 439,834 |
| Total Cash Cost per ounce sold | US$/oz | 791 | 1,236 | 929 | 541 | | 741 |

# The Use and Application of Alternative Performance Measures (APMs) continued

**All in Sustaining Costs (AISC)**

### Definition

AISC includes both operating and capital costs required to sustain gold production on an ongoing basis, over and above the direct mining and selling costs shown by TCC.

### Calculation

AISC are calculated by the Group as TCC plus/(minus) impairment/(reversal of impairment) of ore stockpiles and gold in circuit, central administration expenses, plus capitalised stripping at end of the period, minus capitalised stripping at beginning of the period, plus close-down and site restoration and sustaining capital and exploration expenditure. This is then divided by the ounces of gold sold. AISC are presented on a segment basis.

AISC are calculated in accordance with guidelines for reporting AISC as published by the World Gold Council in June 2013. Other companies may calculate this measure differently.

### Relevance

AISC allows for a better understanding of the true cost of producing gold once key components such as central admin costs and the cost of sustaining capital and exploration expenditure are taken into account. Management uses this measure to monitor the performance of our assets and their ability to generate positive cash flows.

### Reconciliation

The tables below provide a reconciliation between total cash costs and all-in sustaining costs to calculate all-in sustaining cost per ounce sold for relevant periods.

| 2018 | Ref | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Total cash costs | | 107,875 | 8,638 | 61,294 | 112,527 | – | 290,334 |
| Add: | | | | | | | |
| Impairment of ore stockpiles | note 6 | – | – | 309 | 17,712 | – | 18,021 |
| Impairment of gold in circuit | note 6 | 1,415 | 17 | 536 | 157 | – | 2,125 |
| Central administration expenses | note 6 | 14,316 | 683 | 8,214 | 15,982 | – | 39,195 |
| Net capitalised stripping | note 15 | 21,970 | – | 895 | (15,644) | – | 7,221 |
| Site restoration costs | | 172 | – | 559 | 511 | – | 1,242 |
| Sustaining exploration expenditures | | 8,902 | – | 5,502 | 4,079 | – | 18,483 |
| Sustaining Capital Expenditures | | 20,003 | – | 4,612 | 11,471 | – | 36,085 |
| All–in Sustaining Costs | | 174,653 | 9,338 | 81,921 | 146,795 | – | 412,706 |
| | | | | | | | |
| Total ounces sold | oz | 135,001 | 6,442 | 77,448 | 150,720 | – | 369,611 |
| All–in Sustaining Costs per ounce sold | US$/oz | 1,294 | 1,449 | 1,058 | 974 | – | 1,117 |

| 2017 | Ref | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Total cash costs | | 126,914 | 39,867 | 61,037 | 98,169 | – | 325,987 |
| Add: | | | | | | | |
| (Reversal of impairment)/ | | | | | | | |
| impairment of ore stockpiles | note 6 | (1,347) | 175 | 304 | (1,592) | – | (2,460) |
| Impairment of gold in circuit | note 6 | 2,594 | 733 | 563 | – | – | 3,890 |
| Central administration expenses | note 6 | 14,569 | 2,929 | 5,965 | 16,481 | – | 39,944 |
| Net capitalised stripping | note 15 | 917 | – | 7,024 | 5,639 | – | 13,580 |
| Site restoration costs | | 101 | 201 | 327 | 868 | – | 1,497 |
| Sustaining exploration expenditures | | 5,993 | 37 | 3,789 | 6,318 | – | 16,137 |
| Sustaining Capital Expenditures | | 15,351 | 159 | 4,929 | 4,510 | – | 24,949 |
| All-in Sustaining Costs | | 165,092 | 44,101 | 83,938 | 130,393 | – | 423,524 |
| | | | | | | | |
| Total ounces sold | oz | 160,421 | 32,250 | 65,678 | 181,485 | – | 439,834 |
| All-in Sustaining Costs per ounce sold | US$/oz | 1,029 | 1,367 | 1,278 | 718 | – | 963 |

## All in Costs (AIC)

**Definition**
AIC comprises of AISC as well as capital expenditures for major growth projects or enhancement capital for significant improvements at existing operations.

**Calculation**
AIC are calculated by the Group as AISC plus non-sustaining exploration and capital expenditure and (reversal of impairment)/impairment of refractory ore stockpiles. This is then divided by the ounces of gold sold. AIC are presented on a segment basis.

AIC is calculated in accordance with guidelines for reporting AIC as published by the World Gold Council in June 2013. Other companies may calculate this measure differently.

**Relevance**
AIC reflect the costs of producing gold over the life-cycle of a mine.

**Reconciliation**
The tables below provide a reconciliation between all-in sustaining costs and all-in costs to calculate all-in cost per ounce sold for relevant periods.

| 2018 | Ref | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| All-in Sustaining Costs | | 174,653 | 9,338 | 81,921 | 146,795 | – | 412,707 |
| Add: | | | | | | | |
| Exploration expenditure | | 1,092 | – | 1,084 | 971 | – | 3,147 |
| Capital Expenditure | | 22,740 | – | 53,910 | – | – | 76,650 |
| All-in costs | | 198,485 | 9,338 | 136,915 | 147,766 | – | 492,504 |
| | | | | | | | |
| Total ounces sold | oz | 135,001 | 6,442 | 77,448 | 150,720 | – | 369,611 |
| All-in costs per ounce sold | US$/oz | 1,470 | 1,449 | 1,768 | 980 | – | 1,332 |

| 2017 | Ref | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| All-in Sustaining Costs | | 165,092 | 44,101 | 83,938 | 130,393 | – | 423,524 |
| Add: | | | | | | | |
| Reversal of impairment of ore stockpiles | note 6 | (2,242) | – | – | – | – | (2,242) |
| Exploration expenditure | | 5,592 | – | 44 | 127 | – | 5,763 |
| Capital Expenditure | | 18,237 | – | 22,972 | – | – | 41,209 |
| All-in costs | | 186,679 | 44,101 | 106,954 | 130,520 | – | 468,254 |
| | | | | | | | |
| Total ounces sold | oz | 160,421 | 32,250 | 65,678 | 181,485 | – | 439,834 |
| All-in costs per ounce sold | US$/oz | 1,164 | 1,367 | 1,628 | 719 | – | 1,065 |

# The Use and Application of Alternative Performance Measures (APMs) continued

### Average Realised Gold Sales Price

**Definition**
The average realised gold sales price is the mean price at which the Group sold its gold production output throughout the reporting period, including the realised effect of cash flow hedge contracts during the period.

**Calculation**
The average realised gold sales price is calculated by dividing total revenue received from gold sales (including the realised effect of any hedging contracts) by the total quantity of gold sold during the period. Other companies may calculate this measure differently.

**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 and profitability.

**Reconciliation**
The average realised gold price has been calculated as set out in the table below.

| | Ref | | 2018 | 2017 |
|---|---|---|---|---|
| Gold revenue | note 4 | US$'000 | 466,674 | 555,092 |
| Gold sold | | ounces | 369,611 | 439,834 |
| Average realised gold price | | US$/oz | 1,263 | 1,262 |

### Capital Expenditure (CAPEX)

**Definition**
CAPEX is the investment required by the Group to explore and develop its gold assets and keep current plants and other equipment at its gold mines in good working order.

**Calculation**
CAPEX represents cash flows used in investing activities, namely Purchases of property, plant and equipment and Expenditure of exploration and evaluation assets.

**Relevance**
Capital expenditure is necessary in order not only to maintain but also to develop and grow the business. Capex requirements need to be balanced in line with the Group's strategy and provide an optimal allocation of the Group's funds.

**Reconciliation**
The table below provides a reconciliation between capital expenditure and cash flows used in investing activities.

| | Ref | 31 December 2018 US$'000 | 31 December 2017 US$'000 |
|---|---|---|---|
| Purchase of property, plant and equipment | SCF | 131,213 | 82,295 |
| Expenditure on exploration and evaluation assets | SCF | 3,153 | 5,763 |
| Total Capital Expenditure | | 134,366 | 88,058 |

### Net Debt

**Definition**
Net Debt shows how indebted a company is after total debt and any cash (or its equivalent) are netted off against each other.

**Calculation**
Net Debt is calculated as the sum of current borrowings and non-current borrowings less cash and cash equivalents. Other companies may calculate this measure differently.

**Relevance**
Management considers Net Debt a key measure of the Company's leverage and its ability to repay debt as well showing what progress is being made in strengthening the statement of financial position. The measure is also widely used by various stakeholders.

**Reconciliation**
The table below provides calculation of net debt at relevant reporting dates.

| | Ref | 31 December 2018 US$'000 | 31 December 2017 US$'000 |
|---|---|---|---|
| Cash and cash equivalents | SFP | 26,152 | 11,415 |
| Borrowings | SFP | (594,177) | (596,474) |
| Net debt | | (568,025) | (585,059) |

## Underlying EBITDA

**Definition**
EBITDA is a common measure used to assess profitability without the impact of different financing methods, tax, asset depreciation and amortisation of intangibles and items of an exceptional / non-recurring nature, or those that could make comparison of results from prior periods less meaningful.

**Calculation**
Underlying EBITDA is calculated as profit/(loss) for the period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, impairment charges and accrual for additional mining tax. Other companies may calculate this measure differently.

**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. The measure is also widely used by various stakeholders.

**Reconciliation**
The tables below provide reconciliations between net profit and Underlying EBITDA as well as reconciliation between operating profit and Underlying EBITDA for relevant periods.

| | Ref | 2018 US$'000 | 2017 (restated) US$'000 |
|---|---|---|---|
| Profit for the period | SPL | 25,929 | 37,141 |
| Add/(less): | | | |
| Investment income | SPL | (3,775) | (760) |
| Interest expense | SPL | 29,520 | 25,905 |
| Other finance gains | SPL | (13,905) | (2,199) |
| Other finance losses | SPL | 32,354 | 28,470 |
| Foreign exchange (gains)/losses | note 6 | (8,450) | 746 |
| Accrual for additional mining tax | note 6 | – | 19,852 |
| Taxation | SPL | 56,489 | 11,804 |
| Depreciation | note 6 | 102,236 | 104,800 |
| Impairment of exploration and evaluation assets | note 6 | 12,192 | – |
| Impairment/(reversal of impairment) of ore stockpiles | note 6 | 18,021 | (4,702) |
| Impairment of gold in circuit | note 6 | 2,125 | 3,890 |
| Impairment of non-trading loans | note 6 | – | 629 |
| Reversal of impairment of mining assets | note 6 | (101,695) | – |
| Share of results of associates [(a)] | note 14 | (8,065) | (28,744) |
| Underlying EBITDA | | 142,976 | 196,832 |

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

# The Use and Application of Alternative Performance Measures (APMs) continued

| 2018 | Ref | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|---|
| Operating profit | SPL | | | | | | 126,612 |
| Foreign exchange gains | note 6 | | | | | | (8,450) |
| Segment result | note 4 | 24,751 | (1,163) | 84,913 | 17,312 | (7,651) | 118,162 |
| Add/ (less): | | | | | | | |
| Depreciation | notes 4,6 | 36,982 | 681 | 22,701 | 41,427 | 445 | 102,236 |
| Reversal of impairment of mining assets | notes 4,6 | – | – | (82,958) | – | (18,737) | (101,695) |
| Impairment of exploration and evaluation assets | notes 4,6 | – | – | 12,192 | – | – | 12,192 |
| Impairment of ore stockpiles | notes 4,6 | – | – | 309 | 17,712 | – | 18,021 |
| Impairment of gold in circuit | notes 4,6 | 1,415 | 17 | 536 | 157 | – | 2,125 |
| Share of results of associates[a] | note 14 | | | | | (8,065) | (8,065) |
| Underlying EBITDA | | 63,148 | (465) | 37,693 | 76,608 | (34,008) | 142,976 |

| 2017 (restated) | Ref | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Corporate and other US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|---|
| Operating profit | SPL | | | | | | 100,361 |
| Foreign exchange losses | note 6 | | | | | | 746 |
| Segment result | note 4 | 33,794 | (9,455) | 1,455 | 79,686 | (4,373) | 101,107 |
| Add/ (less): | | | | | | | |
| Accrual for additional mining tax | notes 4,6 | 6,511 | 2,255 | 2,780 | 8,306 | – | 19,852 |
| Depreciation | notes 4,6 | 36,168 | 7,112 | 16,959 | 44,346 | 215 | 104,800 |
| (Reversal of impairment)/impairment of ore stockpiles | notes 4,6 | (3,589) | 175 | 304 | (1,592) | – | (4,702) |
| Impairment of gold in circuit | notes 4,6 | 2,594 | 733 | 563 | – | – | 3,890 |
| Impairment of non–trading loans | notes 4,6 | – | – | – | – | 629 | 629 |
| Share of results of associates[a] | note 14 | | | | | (28,744) | (28,744) |
| Underlying EBITDA | | 75,478 | 820 | 22,061 | 130,746 | (32,273) | 196,832 |

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

# Appendix, Glossary and Definitions

For the year ended 31 December 2018



**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 the JORC Code. The assets are subdivided into 'core' and 'non-core' projects. Core projects are classified as the Group's four operational mines (Pokrovskiy, Pioneer, Malomir, Albyn) and their satellites scheduled for production using 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 estimates are based on a long-term gold price assumption of US$1,200/oz with other modifying factors derived from the actual 2018 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 completed in 2016, 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.

# **Appendix, Glossary and Definitions** continued

For the year ended 31 December 2018

| | |
|---|---|
| **alluvial** | material that is transported by a river and deposited at points along the flood plain and river bed. The material may contain economical deposits of gold and other valuable minerals |
| **assay** | the chemical laboratory analysis of a sample of ores to determine the proportion of gold, silver, or other metal contained within |
| **Au** | chemical symbol for the element gold |
| **autoclave** | equipment used in the pressure oxidation (POX) process to facilitate gold extraction from refractory ores |
| **backfill** | waste material used to fill the void created by mining an ore body |
| **bondholder** | holders of the Group's US$100 million 9% convertible bonds due 2020 |
| **brownfield exploration** | exploration work carried out close to, at or adjacent to existing mines. Also known as near-mine exploration |
| **concentrate yield** | the percentage of the mass of the original ore which is pulled into the concentrate |
| **cut off grade** | the lowest grade of mineralised material considered economic for mining, used in the reporting of Ore Reserves and Mineral Resources |
| **cyanidation** | the treatment of finely crushed or ground ore with cyanide solution to dissolve and extract the gold from it |
| **depletion** | a decrease in the quantity of ore at a deposit due to mining / extraction |
| **deposit** | a natural occurrence of a mineral or ore, in sufficient quantity and concentration to enable exploitation |
| **doré** | an impure alloy of gold and silver produced at the mine before being forwarded to a refinery for additional purification |
| **feasibility study** | an extensive technical and financial study to assess the commercial viability of a mining project |
| **flotation** | the process of separation, extraction and concentration of ore that results in the production of a high-grade refractory concentrate to be processed inside the autoclaves at the POX Hub |
| **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** | the amount of gold contained in a tonne of gold bearing ore (expressed in grams per metric tonne) |
| **greenfield exploration** | exploration carried out at a location where minimal to no previous exploration work has taken place |
| **Group** | the Company and its subsidiaries |
| **head grade** | the grade of ore as it comes from a mine and goes into a mill for processing at the plant |
| **heap leach** | the process used for the recovery of metal from low grade ore. Crushed material is laid on a mildly sloping, impervious pad and uniformly leached by the percolation of the leaching solution through the beds of ore by gravity and pumped to holding ponds. The metal is 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, 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 with a holding of 31.1% |
| **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 |
| **koz** | thousand ounces |
| **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 |
| **life of mine** | the remaining years of production at a particular location or asset, based on production rates and ore reserves, as per the Company's current mine plan |
| **Lost Time Injury Frequency Rate (LTIFR)** | 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** | the process of formation and concentration of elements and their chemical compounds within a mass or body of rock |
| **Mineral Resource** | the 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 |
| **mining** | the process of obtaining useful minerals from the earth's crust via both underground and surface / open pit mining activities |
| **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 rock that can be extracted and marketed profitably |
| **ore body** | 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 *Proven and Probable* |
| **ounce or oz** | troy ounce (31.1035 grams) |
| **overburden** | material (usually soil and rock) that sits above the ore deposit and must be removed to expose the ore |
| **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 |
| **recovery rate** | the quantity of metal physically extracted from the processing of ore, as a percentage of the total metal content, after accounting for mining losses |

For the year ended 31 December 2018

| | |
|---|---|
| **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 |
| **Resin-in-pulp (RIP)** | 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 unprocessed ore or mineralised material intended to serve as a reserve for current or future processing or as an additional source of material to achieve a uniform feed for the plant via blending with ore received from the mine |
| **stope** | an area in an underground mine where ore is mined |
| **strike** | direction of the line formed by the intersection of a fault, bed, or other planar feature and a horizontal plane |
| **strike length** | longest horizontal dimension of an ore body or zone of mineralisation |
| **strip ratio** | *stripping ratio* or *strip ratio* refers to the ratio of the volume of *overburden* (or waste material) removed relative to the volume of ore mined. For example, a 3:1 stripping ratio means that mining one cubic metre of ore will require mining three cubic metres of waste rock |
| **tailings** | material or waste that remains after all metals / minerals considered economic have been removed from the ore during the milling process. Tailings have the potential be reprocessed in the future if the economics of the contained metal or mineral change |
| **tailings dam** | an open air storage facility used to store the waste by-products produced during the process of extracting gold from the ore |
| **trench sampling** | taking samples from a trench on the surface or along a trench excavated underground, generally in the form of a series of continuous channels (channel samples) |
| **tpm** | tonnes per month |

# Shareholder Information

For the year ended 31 December 2018

**Shareholder queries**
The Company's share register is maintained by the Company's Registrar, Link Asset Services. Shareholders with queries relating to their shareholding should contact Link Asset Services directly using one of the methods listed below.

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone Helpline: 0871 664 0300

If shareholders have any questions please call Link Asset Services on 0871 664 0300. Calls cost 12p per minute plus your 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 Link helpline is open between 09.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Online: investorservices@linkgroup.co.uk (from here you will be able to email Link Asset Services with your enquiry).

For more general queries, shareholders should consult the 'Investors' section of the Company's corporate website at www.petropavlovsk.net.

**Managing your shares online**
Shareholders can manage their holdings online by registering with Link Asset Services share portal service. This is an online service provided by Capita which enables you to view and manage all aspects of your shareholding security. The service is free and available 24 hours a day at your convenience. Shareholders, whose shares are registered in their own name, can:

- View holdings plus indicated price and valuation
- View movements on their shareholdings
- View dividend payment history
- Change their address
- Register or change their email address
- Sign up to receive communications by email instead of post
- Access the online voting service.

**Useful contacts**
Registered office:
Petropavlovsk PLC
11 Grosvenor Place
Belgravia
London SW1X 7HH

Telephone: +44 (0) 20 7201 8900

Registered in England and Wales (no. 4343841)

Online for general queries:
contact@petropavlovsk.net

**Investor Relations Contact:**
Mr Patrick Pittaway
Head of Investor Relations

**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.

The Directors are responsible for the maintenance and integrity of the financial information on the Company's website. This information has been prepared under the relevant accounting standards and legislation.

**Annual General Meeting 2019**
This year's Annual General Meeting (AGM) will be held at the offices of Buchanan Communications, 107 Cheapside, London EC2V 6DN. The meeting is on 13 June 2019 commencing at 11 a.m. Shareholders who wish to attend the AGM are kindly 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.

**Petropavlovsk PLC**
11 Grosvenor Place
London
SW1X 7HH

T +44 (0)20 7201 8900
E contact@petropavlovsk.net
www.petropavlovsk.net

PETROPAVLOVSK