Annual Report 2014

PETROPAVLOVSK

About Petropavlovsk

An established Russian gold producer

Petropavlovsk is one of Russia's leading gold mining companies. We operate some of the largest gold mines in Russia in terms of their gold production output, processing capacity and resource base. Furthermore, our assets have untapped exploration potential. We are a leading employer and contributor to the development of the local economy in the Amur region, Russian Far East, where we have operated since 1994. As at 31 December 2014, we have produced approximately 5.5Moz of gold.

Go to page 12 for more on our business model.

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Chairman's Statement

Peter Hambro

I am delighted to be able to welcome back my old friend Pavel Maslovskiy, who has been my business partner of more than 20 years, as Group Chief Executive.

The Group's successful operational performance in 2014 was masked by the publicity surrounding its refinancing so it is worth reminding ourselves that in 2014, we produced 624,500oz of gold, in line with previously stated guidance. Partly due to the sale of its Berelekh operation during the third quarter of 2013, which operated high-cost alluvial operations in the Magadan region, 2014 production was lower than the 741,200oz of gold produced in 2013.

The Group's four hard-rock gold mines, on a like-for-like basis that excludes production from Berelekh and from the alluvial mining at OJSC ZDP Koboldo ('Koboldo'), the disposal of which the Group announced on 20 April 2015, produced 595,000oz of gold in the year ended 31 December 2014 compared with 656,000oz of gold in the year ended 31 December 2013.

Gold sales in 2014 of 617,000oz achieved an average realised gold price of US$1,331/oz, including a US$66/oz contribution from hedging activities.

Total Cash Cost per oz ('TCC/oz') for 2014 at US$865/oz were in line with the Company's guidance of less than US$900/oz, benefiting from the cost-cutting programme introduced by the Company and the devaluation of the Rouble in the last quarter of the year.

This year, we are publishing our All-In Sustaining Costs ('AISC') for the first time. I am pleased to note that, in spite of the reduced number of ounces produced, our AISC at US$970/oz compares well with our peers, especially when adjusted for absolute production numbers, and represents a 22% reduction on our capital intensive year in 2013.

In spite of the lower level of gold production, resulting partly from the disposal of high-cost alluvial assets, our continuing operations generated US$252 million of EBITDA.

I believe that this level of cash generation bodes well for the future years and you will see that this is something which Pavel Maslovskiy talks about in his CEO report.

Unfortunately, the continuing operations still showed a loss in 2014, which is almost entirely due to non-cash items such as foreign exchange losses, related deferred tax and some impairment charges. Nonetheless, the result is a considerable improvement on the US$514 million loss from continuing operations recorded in 2013.

Wardell Armstrong, our geological consultant, has again reviewed the ongoing results of our exploration activities and I am pleased to tell you that these demonstrate that the Company has sufficient non-refractory gold reserves and resources for implementation of our five years production plan.

The value of our investment in IRC, the Hong Kong Listed iron-ore and ilmenite miner, has again decreased. The much publicised fall in the price of the two commodities that it produces is the reason for the decrease because from an operational point of view it has performed very well. As a listed company, IRC reports separately and full details of its operations can be found on its website www.ircgroup.com.hk. However I am pleased to note that commissioning of its 3.2 million tonne per year mining and concentration facilities in the Russian Far East commenced in December 2014 and these are expected to be operating at full capacity by the end of 2015. In its Q1 2015 trading update IRC alludes to cost savings that it has identified which will enable K&S to produce iron ore concentrate below US$50 per tonne and additional measures that could reduce this further if the price remains low. This is welcome news and demonstrates the flexibility inherent in the operations.

The refinancing of US$310.5 million convertible bonds due in 2015, which was completed on 18 March 2015, was the management's primary focus during the year. The pricing of the Rights Issue and the new five year US$100 million convertible bond was set by the Bondholders in their debt exchange. In light of this, many alternative refinancing avenues were explored but this deal, though expensive, was the only way in which the Board could be certain of the Company meeting its obligations as and when they fell due.

As one of them – and a significant one, at that – I realise that shareholders were savaged by the pricing but I am glad that we managed to keep our promise that any refinancing would be fully open to all of them, in case they wanted to take part and I am very grateful to those that did.

Pavel Maslovskiy and I, together with our third business partner, Andrey Vdovin, underwrote some US$30 million of the issue and we also exercised some of our Rights. There can be no greater endorsement of management's view of the prospects for the Company than when the directors dig as deeply into their own pockets as we have done.

I would also like to give a big vote of thanks to the private, individual shareholders who rallied round in our hour of need and voted in favour of the proposals at the General Meeting on 26 February 2015 that enabled the refinancing to proceed. It is, I am told, very unusual to achieve such a large and positive turnout of voters when shares are predominantly in the hands of private investors.

As previously announced, the composition of the Board and the management of the Company will change with the publication of this Report and Accounts. Most of the present non-executive directors will retire and will be replaced by three others. Mr Robert Jenkins, who assisted the Audit Committee and Board throughout the recent Refinancing, will be appointed as a Non-Executive Director with effect from 30 April 2015. An announcement regarding the appointment of two additional new Non-Executive Directors will be made in due course. Further details of the selection process which we are undertaking for these appointments, together with representatives of former holders of the Group's 4% Convertible Bonds due 2015, are provided on page 74.

Most of the executive directors will also retire as directors but will remain in their executive roles and retain the membership of the Executive Committee, the body that handles the day-to-day administration of the Company and that makes recommendations to the Board for future development.

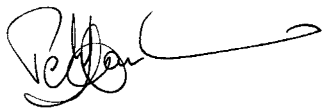
With these changes taking place, I should like to add my personal thanks to all of the individuals – executive and non-executive, who have contributed so very much, particularly during the past year which was, by any stretch of the imagination, a difficult year. The non-executive directors, who are retiring have made a great contribution. We will miss the wise counsel of Graham Birch, Lord Guthrie, Charlie McVeigh and David Humphreys and thank all of them for their support. I should like to single out Sir Malcolm Field for special thanks for the tireless way in which he handled the Audit Committee – probably the key role as the refinancing progressed – and Sir Roderic Lyne for his calm wisdom that enabled us to navigate through the maelstrom. Martin Smith, who retires as Deputy Chief Executive, has been a great asset to the Group throughout his many years of service, having initially joined Aricom on secondment. We wish him well in his retirement. Pavel joins me in expressing our gratitude to them all.

I would also like to welcome Robert Jenkins to the Board.

In my annual letters to shareholders, I have had to refer to financial and geopolitical uncertainties as the main reason to hold gold and, as a human being, I am sad that this letter is no exception. As your Chairman, however, I continue to feel that there is no end in sight and that the level of contagion has been ratcheted up a notch or two since my last letter. To support this view I would draw attention to a recent report by industry experts that seems to show that gold is one of the most liquid financial markets, with trading volumes many multiples of annual mine output.

Overall, I am extremely encouraged by the developments at Petropavlovsk over the past year and believe we have now established a far stronger operational and financial platform that will enable us to exploit our excellent resource base and deliver significant returns to our shareholders over the coming years.

Neither our operational success, nor our refinancing would have been possible without the support that all members of our team put in and, on behalf of the Board and the Company I extend my thanks for all they have done.



Peter Hambro
Chairman

Chief Executive Officer's Statement

Pavel Maslovskiy

It is with great pleasure that I write to you once again as CEO and my purpose is to explain to you, and to future shareholders, why I have made a further substantial investment in our Company. I would like to share my plans with you and explain why I expect them to generate a strong and significant return on our investment.

I believe that, due to the short-term liquidity problem that we experienced in 2014, the Company has been, and remains, significantly undervalued by the market.

In order to decrease the risk of another liquidity crisis and to avoid a repetition of the situation which occurred in 2014, it is vital for the Group to focus on decreasing its Net Debt by maximising its free cash flow.

It is also necessary to implement a conservative policy of borrowing and I propose that the main element in this policy should be a medium-term target of reducing Net Debt/EBITDA to less than 1.5:1 at a gold price US$1,200/oz and maintaining net debt at that level.

This means a change in approach to short-term (1-2 years) planning. From now on, our focus will be on delivering higher operating margins and increased cash-generation at the expense, if necessary, of reduced production. The recently announced sale of our high-cost alluvial production is another way of reducing our debt and I am pleased that the disposal can be achieved without reducing our 2015 production target.

Though it sounds obvious, it will require some tenacity on the part of management to achieve this and, importantly, to prove to our shareholders that a decrease in production could actually create more cash.

I am confident that we can deliver on these objectives due to the Group's first-rate assets:

- A substantial, easily accessible resource base: more than 20Moz of Measured, Indicated and Inferred JORC Resources and a strong and growing Reserve base of more than 9Moz.
- A strong team of highly qualified and extremely knowledgeable employees – built up over more than 20 years of operating – and a comprehensive programme of recruitment and career advancement.
- A mining fleet which has the potential to move more than 80 million cubic metres of rock a year, and modern resin-in-pulp (RIP) plants, which have the capacity to process 18 million tonnes of ore a year.

A combination of our excellent assets and success in the action plan outlined below enables us to achieve the most important performance indicator - growth in free cash flow. In turn, this enables us to take on the task both of decreasing debt and, once this is achieved, also delivering significant shareholder value.

How, then, shall we make best use of our assets? First, we must concentrate on reducing the mining and processing costs as a central part of our remit.

For any established enterprise, this is a complex task, which is constantly high on the agenda, but there is always room for improvement, particularly in light of the development of new cost-saving procedures and technologies. Accordingly, for Petropavlovsk the most immediate results can be achieved in the following actions:

- An optimisation of our procurement process. This programme, which has already begun, has led to an increase in competition among suppliers and has enabled us to secure improvement in contract terms from many of the Company's suppliers. The results of this optimisation can be seen in our Annual Report – materials and other inventories dropped by 22% year-on-year and our Total Average Cash Costs at US$865/oz were reduced by 15% vs. 2013. This reduction was achieved despite 16% lower volume of gold sold than in 2013. Going forward the competition involved in our new procurement methods, including tenders for the signing of new contracts is expected to result in successful renegotiations with organizations engaged in servicing imported mining equipment.
- Intensification and modernisation of mining operations by the introduction of best practice procedures in management, operations, planning and control of the mines.
- Cost reduction and the optimisation of management efficiency to enable an overall reduction in administrative costs have been helped by the introduction of new incentives programmes for staff. These programmes are in the final stages of development and will be implemented in 2015.

We have also changed our 'we-do-everything attitude' and now are reviewing outsourcing possibilities where it is efficient and cost beneficial. In the past, the economic environment in which the Group grew led to the creation of a self-contained structure, capable of supporting the entire lifecycle chain of mining-related activities: exploration; assay analysis; metallurgical studies; all stages of the design; the construction of mines, processing facilities and infrastructure; mining operations; ore processing and the transportation of products.

Today, with the welcome development of the Russian economic environment and the availability of a number of skilled, professional service companies that can be involved in many parts of the production cycle, outsourcing is another way for us to reduce costs. This removes the need for us to run many service companies and to increase the efficiency of our operations.

The specific areas mentioned above, alongside the daily work of improving the efficiency of other areas of our operations, are expected to secure a 10-15% reduction in operating costs in 2015 net of RUR/US$ exchange rate.

Much of the foregoing appears aspirational and so I would like to emphasise the achievements that our management team and employees have already made and, moreover, to congratulate them on our current steady and impressive performance.

Our analyses show that today our team is one of the most efficient in our Russian peer group in terms of mining and processing costs which enables us to process sometimes technologically challenging or low grade material within competitive cost structure.

This means that the optimal way to improve our financial performance is not only through better operations, but also through an increase in the quality of our Reserves and Resources base, in grades of gold in the material mined and processed.

We think that we have great potential to improve the quality of our assets and grades of the feed through the mill without expensive acquisitions but by pursuing organic growth through further exploration of our already existing assets and their flanks and satellites.

This leads me to report in detail on our mining assets, the most prospective of which, Pioneer and Albyn, have processing capacities of approximately 6.5Mtpa and 4.2Mtpa respectively. Our team believes that these two assets have further growth potential and they are working hard on unlocking the untapped value of these mines.

I would draw your attention particularly to our plans for a possible high-grade underground mine at Pioneer and the continuation of pressure oxidation. Details of these plans are set out below.

Looking at our exploration and production plans in some detail, I would like to highlight the following:

Pioneer

Since 2008, a characteristic feature of the Pioneer deposit has been the presence of closely-knit ore occurrences alongside high-grade, individual ore bodies. In most cases, the impact of these high-grade ore zones on the average content of the reserve grades has not been fully taken into account, as this would necessitate a tighter grid of field exploration, which would incur significant costs.

However, upon mining the deposit, the reconciliation between reserve and actual ore grades has always shown that the actual grade is higher than the estimated grade.

As an example, the Reserves and Resources estimated by independent minerals' experts Wardell Armstrong International (WAI), which were published in 2011, indicated the presence of 934koz of gold (with an average grade of 1.19g/t) in 25 million tonnes of (oxidised) ore in Measured and Indicated Resources, of which 777koz of gold (with an average grade of 0.95g/t) in c. 25Mt of ore in Proven and Probable Reserves. However, between 2011 and 2014 (inclusive), the Pioneer RIP plant processed 23.2Mt of ore containing 1.542Moz of gold (with an average grade of 2.06g/t) from the areas outlined in the initial WAI report, and this impressive performance has now been independently verified by the same WAI.

In 2012, we discovered a new ore zone, Alexandra, which is located approximately 8km from the Pioneer RIP plant. Today, intensive exploration work has revealed that due to its size and scope it could be considered as a deposit in its own right.

Continuing exploration at Alexandra demonstrates its similarity to the corresponding zones at Pioneer mentioned above. The tightening of the exploration grid results in an increase in both the gold content of these zones and size of these high-gold content zones. It also leads us to the discovery of new high grade areas.

And, yet again, we have experienced that, whilst the average grade of resources at the explored parts of the deposit is 0.6g/t, the ore, which was sent to the plant at the end of 2014 and during Q1 2015, had an average grade of more than 1g/t achieved without selective mining or 'high grading'.

Another exciting prospect for maximising value of the Pioneer deposit is the development of an underground mine. Several ore columns at Pioneer are high-grade and remain open at depth, offering the potential for significant resource and reserve expansion. From the outset of mining operations, a large amount of gold was produced from these ore columns in the open pits. At the Andreevskaya ore body, 700,000oz of gold at 13g/t were extracted from a 180m-deep pit. At NE Bakhmut, 700,000oz of gold at 6g/t were extracted from 220m-deep pit. Other smaller ore bodies yielded another 330,000oz at 8g/t from 100m-deep open pit.

In January 2015, Petropavlovsk launched an intensive exploration programme in order to evaluate the reserves and resources base of the deeper horizons at Pioneer. The independent consultant, WAI, reviewed our assessment of Pioneer underground exploration potential target of c.3Moz to 6Moz at grades which may exceed 7g/t and supports our approach. The same evaluation suggested that the development of these operations would take about 30 months from the commissioning of the project to its first production. Within four years from the beginning of the project, the operations are expected to work at their full capacity of 0.9-2 million tonnes of ore per year, which will led to an increase in Pioneer RIP production of up to 300,000-500,000oz per year. Preliminary estimates indicate an order of magnitude capital expenditure requirement of US$50 million.

Albyn

Due to the favourable geological positioning of the Albyn deposit, it has a substantial mineral resource base located in a number of satellite deposits which lie in close proximity. The development of these satellites could lead to a significant increase in gold production from the RIP plant via the delivery of a higher-grade feed to the mill. The two most promising satellites identified so far are Afanasevskaya and Unglichikan. The Unglichikan deposit, which is located 16 kilometres away from the plant, is at the advanced stage of exploration and, from 2014, the ore from this deposit began to be used for preparing a blend for the mill.

In addition, our accelerated exploration of the Afanasevskaya deposit, from which some production, focussing only on the deposit's rich quartz veins, was carried out during the Soviet era, has produced very promising results, discovering significant amounts of ore which were missed by our predecessors.

The Afanasevskaya deposit is controlled by a thick (up to 1km) and long (up to 12km) tectonic zone. In 2014, this ore structure was explored by three 600-1,200m-long trenches, with several ore bodies identified in each of the trenches. Within the high-grade veins, which were partially mined during Soviet-era, the grades were up to 6.8g/t and large (up to 0.5-0.7 mm) particles of free gold were identified.

One such trench identified an ore body which was followed for 1km and remains open along the strike. Its average parameters are 3.4g/t for 6.1m. An additional eight ore bodies were identified by the trenching, with grades ranging between 1.26g/t and 8.0g/t for 1-1.3m.

In order to follow the mineralisation in depth, three deep (up to 120m) drill holes were drilled, identifying grades of 1.6g/t for a surface length of 9 metres. The mineralisation remains open in depth.

Laboratory test work has indicated that the ore in this mineralisation has good technological properties: 94.5%-95% can be recovered by direct cyanidation.

The current resource estimate for the Afanasevskaya deposit is c.40 tonnes (c.1.3Moz) of gold.

Our head geologist, Nikolai Vlasov, has asked me to emphasise that the long-term future for Albyn production capacities is expected to be secured by the large Elginskoye deposit, which was recently discovered by our geologists. Exploration of this deposit is still on going, since the ore bodies and zones of the deposit have not yet been outlined and opened along the strike and to the depth. So far, this deposit, which was explored by a wide grid, contains c.2.3Moz of Resources according to JORC estimates but the Group's geologists expect a significant uplift in these initial estimates in the course of further exploration work.

Pokrovskiy

This deposit, Petropavlovsk's first mine, was commissioned in 1999 and has a processing plant capacity of c.1.8 million tonnes of ore a year. Due to depletion of the Pokrovskiy deposit's reserves, the Group planned to remodel the plant in 2014 in order to enable the treatment of filter cakes for autoclave production. However, our scheduled pause in the construction of the POX plant and the intensification of exploration on the flanks of the deposit has allowed the plant to be provisioned with non-refractory reserves and resources for five years or more.

For this reason, I consider it practical to review the technical solutions for POX for the purpose of evaluating the efficiency of constructing an independent section for the cyanidation of filter cakes preserving the Pokrovskiy plant as an independent unit. Preliminary calculations demonstrate that it will not increase the capital expenditure for the POX plant significantly, if at all.

Malomir

The treatment facilities at Malomir have a capacity of 4.5-4.7 million tonnes a year and can be quickly increased up to 6.5 million tonnes. Currently, these facilities are partially utilised for treatment of non-refractory ores from top areas at flanks of the main deposit. Resources of these flanks are currently 680,000oz (24.6 million tonnes of ore) and are likely to be increased by further exploration work. However, the economic efficiency of their treatment, though positive, is not very high due to their scattered positioning and high stripping coefficients. And when determining the strategy of the Group's development, it is important to note that the cost of production from these non-refractory areas is higher than the cost of production from the refractory ores of the main deposit. This is due to the thickness of the main ore body and its flat-lying nature, which determines a low stripping coefficient, and also to the low concentrate yield (reducing raw ore tonnage by 95%) and high yield of metal into flotation concentrate (about 85%). All these factors determine competitive costs of production by autoclave leaching.

That is why POX is still important for the development of the Group: first and foremost, in order to bring into production more than 6Moz of refractory reserves and resources from the Malomir deposit and, further into future, from other deposits belonging to the Group. It could also treat ores from deposits that are available for acquisition in the region, especially those which have got significant reserves and resources but were abandoned during Soviet period due to the absence of a technology for treatment of such ores.

The Capital expenditure required in order to finalise the construction of the POX plant was estimated at c.US$180 million before the rouble devaluation. As the main expenditure for imported components have been already incurred, the re-evaluation of this figure in January 2015 estimated about US$140 million capital left to be spent, taking into account the recent Rouble devaluation. But the most precise evaluation could only be done closer to resumption of construction of the project.

Talking about the future without addressing the need for capital expenditure on our development assets and the source of funding for this would be unbalanced.

In summary, the necessity in strategic investments – organisation of underground production at Pioneer and finalisation of the POX plant will require about US$150–200 million. Depending on the ability of the Company to generate cash, as I have already said, the funding could be sourced internally, via cash flows, or externally by debt.

However, these investments should not be made at the expense of achievement of our target Net Debt/EBITDA ratio of 1.5:1 and a sustainable dividend policy.

In conclusion, I want to emphasise that my dream and aspiration is to see Petropavlovsk, which I created, together with my partner from the outset, as a high-margin producer. For years we have spoken about the ephemeral '1 million ounces a year' but this lofty target projection and this spectre now seems capable, once again and based solely on organic growth, of becoming a reality.

Pavel Maslovskiy
Chief Executive Officer

Gold Market Overview

Gold performance in 2014
2014 was an uneventful year for gold, with the Gold PM Fix starting the year at US$1,225/oz and finishing largely flat at US$1,206/oz. The Gold PM Fix traded in a range between US$1,142/oz – US$1,385/oz, averaging US$1,266/oz over the course of 2014, down 10% compared to 2013.

Gold demand and supply
Gold demand totalled c.126Moz in 2014, a decline of 4% on the previous year. Gold jewellery demand, which accounts for approximately half of total gold demand, decreased 10% to c.69Moz, partly driven by weaker Chinese consumer demand and de-stocking of accumulated gold inventory by Chinese jewellers.

Net investment demand, accounting for around a quarter of total demand, totalled c.29Moz in 2014, up c.2% on 2013. However, this modest growth was down to slowing outflows from ETFs as opposed to increased physical ownership. The quantity of gold held by ETFs declined by 5.2Moz (c.9%) to c.55Moz in 2014 (vs. a decrease of 28.5Moz (c.33%) in 2013), while total bar and coin demand declined 40% to c.34Moz as investors noted the ongoing US economic recovery, a stronger dollar and a continued deflationary environment.

On the supply side, mine production increased 2% to c.100Moz in 2014 as mines developed in more recent times have come on stream, bolstering supply. Recycled supply dropped 11% to c.36Moz as lower prices continued to dissuade holders from parting with their gold.

The swift decline in the gold price post the 2011 highs has stimulated mining companies to cut costs and curb spending on new projects and, without new and significant discoveries, this may lead to a future contraction in mine supply as existing assets are depleted.

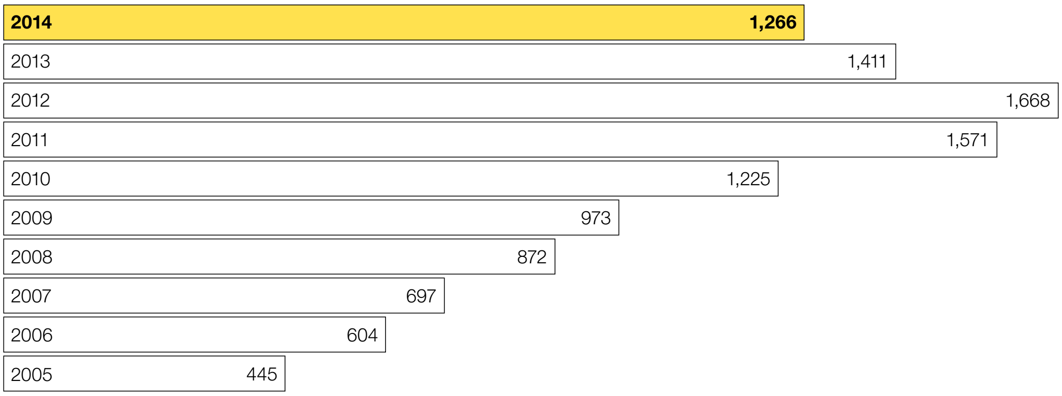
Central bank purchases
Central bank buying continued in 2014, with official sector net purchases totalling c.15.3Moz, up from c.13.2Moz the year prior. According to the World Gold Council, 2014 was the second highest year of central bank demand in the last 50 years, following net purchases totalling c.17.5Moz in 2012. Russia was by far the biggest buyer in 2014, adding c.5.6Moz to its reserves for a total holding of 38.8Moz as it seeks to continue diversifying away from the dollar.

2015 outlook
While January started off on a promising footing with gold almost touching US$1,300/oz, prices moved predominantly sideways in Q1, averaging US$1,218/oz for the period, with a Q1 low of US$1,147/oz in March. Gold is a global asset whose price is determined by a myriad of interconnected themes. In relation to gold, some of the focus in 2015 will be on the following factors:

- **Interest rates:** it is often said that if gold investors want to understand where gold might be heading, they should study where interest rates may move to because gold has an inverse correlation with rates. The US Fed Funds Rate has settled at an all time low of 25bps since December 2008 and there is suggestion rates may rise later this year. This is in contrast to the situation in Europe where a low to negative interest rate environment is likely to persist, particularly following the announcement of quantitative easing by the European Central Bank earlier this year.
- **Inflation / risk of deflation:** gold has long been regarded as a store of value, a protector of purchasing power and as a hedge against uncertainty and economic malaise. On the basis of a range of quantitative easing programmes embarked upon by the world's central banks over the years, some investors bought into gold on the back of an expected inflation scenario. However, inflation has so far not materialised and, if anything, it appears that deflation may well be possible, which may result in some investors moving away from gold.
- **Currency strength:** as a dollar denominated commodity, during periods of dollar weakness, investors look for an alternative store of value, helping to drive up gold demand. Conversely, during periods of dollar strength, demand for gold may soften because buying gold in local currency becomes more expensive. As in 2013, the dollar continued to appreciate in 2014 as the US economic recovery gathered pace, with further resilience evident so far in 2015.
- **Equity markets:** on the assumption that improvements in the global economy are set to continue, mirrored by the ongoing uptrend in equity markets, gold will continue to face stiff competition from other asset classes for investor appetite and interest.

Regardless of the direction gold takes in 2015, Petropavlovsk will continue to monitor developments and will seek to act decisively and in a timely manner.

The average annual gold price declined 10% in 2014 to US$1,266/oz (in US$/oz)

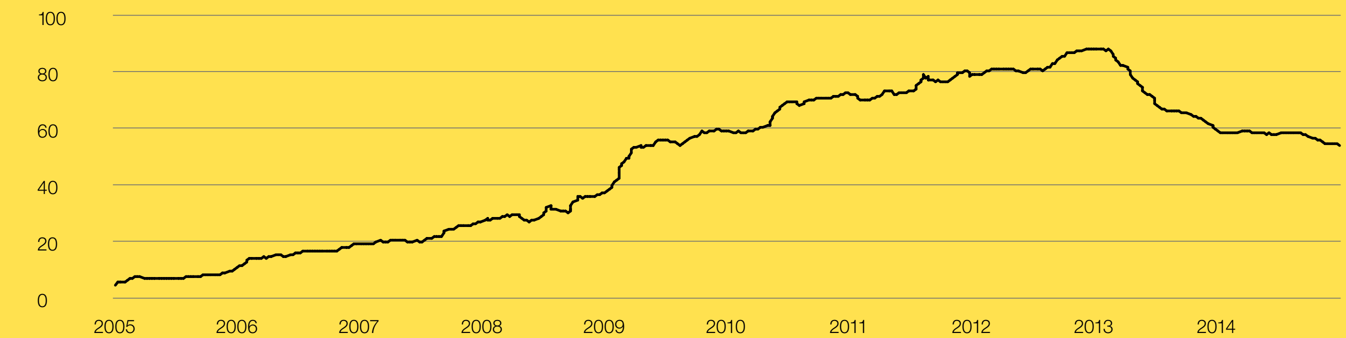


Source: *The London Gold Market Fixing Limited. Data provided for information purposes only.*

Over the last 10 years, gold has appreciated by 182% (in US$/oz)

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

Gold ETF's finished 2014 with combined holdings of approximately 55Moz, down 9% on the year (in Moz)



Source: *UBS.*

Our Business Model

Who we are

Petropavlovsk is one of Russia's leading gold mining companies.

Our purpose is

- to produce gold – an essential commodity in today's world
- to produce steady cash flows, generate wealth and create jobs for the benefit of all stakeholders

Our values are

- responsibility: operating safely
- integrity: working honestly and ethically
- sustainability: leaving a positive footprint
- excellence: harnessing our skills and resources to drive our business

How we do it

Since inception in 1994, we have developed a business model designed to create value for all stakeholders while adhering to our values. We produce gold by utilising our expertise across the mining lifecycle: from identifying prospective areas, to exploration, development, mining and processing.

Identify

Our in-house expertise utilises the analysis geological information combined with our local knowledge to enable us to identify the most prospective licence areas for which we can apply.

Explore

We aim to replenish our resource base in order to sustain our future growth, particularly in areas close to our existing processing plants.

Go to pages 48 to 52 for more on our exploration programme in 2015.

Develop

We aim to utilise in-house expertise to develop our mines and timely and efficiently convert our reserves into gold bars to maximise returns.

Operate

We aim to employ operational efficiency and expertise when we mine and process our ore in order to achieve healthy profit margins.

Go to pages 40 to 47 for more on how our operations performed in 2015.

= Gold

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

Go to page 62 for a mine-by-mine breakdown of physical volumes of gold sold in 2015.

Operating responsibly

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

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

= Developing a sustainable future

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

Effective risk management and governance

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

Go to pages 26 to 37 for more on how we manage the key risks to our business.
Go to pages 74 to 79 for the Corporate Governance Report.

Our Core Strengths

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

Our core strengths

Quality of assets

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

Go to pages 38 to 39 for more on our assets.

In-house expertise

Our in-house capabilities support the efficient development and operation of our gold mines across the mining lifecycle. We have the flexibility to rapidly fast-track newly-discovered non-refractory reserves at our mines into doré gold bars and to adjust our mine plans efficiently in line with external factors.

Go to pages 48 to 50 for exploration, reserves and resources.

Skilled and motivated workforce

We aim to be an employer of choice. We seek to attract and retain talented and motivated individuals who want to work for us. We offer employee benefits as well as safe, good working conditions. We are committed to advancing career development opportunities.

Go to pages 22 to 24 for more on how we operate safely.

Knowledge and experience

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

Go to page 72 to 73 for Directors' biographies.

Location and infrastructure

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

Go to pages 38 to 39 for a map of our operations.

Responsible mining

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

Go to pages 24 to 25 for our approach to sustainability and 22 to 23 for more on our sustainability performance.

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

Our Strategy

Our mission

Our aim is to create and preserve value by:

– harnessing our core strengths to drive our business forward;

– achieving responsible and sustainable growth through the geological exploration of existing and new areas to take our Group into the future;

– becoming a leading centre in Russia for the processing of refractory ores; and

– adhering to our values of responsibility, integrity, sustainability and excellence.

This mission translates into a strategy which reflects different stages of our development.

Our near-term strategy

In the near-term, our strategic plan is to produce cash flows derived from extracting gold from existing non-refractory reserves, specifically to:

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

– continue exploration of areas at, near or adjacent to the Pioneer, Malomir and Albyn mines to find new non-refractory resources, to establish potential new areas of growth and to upgrade all existing non-refractory resources into JORC-compliant Ore Reserves; and

– undertake essential care and maintenance programme of the POX Hub at Pokrovskiy with a view to commissioning this project at a later date.

Our medium-term strategy

In the medium-term, our strategic plan is to generate cash flows derived from extracting gold from existing non-refractory reserves and to enable and implement the processing of refractory material, specifically to:

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

– review the viability of those projects which are currently considered to be non-core;

– finalise the construction of the POX Hub at Pokrovskiy and the flotation plant at Malomir and to commence the processing of refractory Reserves from the Malomir mine;

– continue exploration of areas at, near or adjacent to the Pioneer, Malomir and Albyn mines to find further non-refractory and refractory Resources; and

– explore the possibility of treating refractory concentrate from third parties at the POX Hub.

Our long-term strategy

In the long-term, our strategic plan is to generate cash flows by producing gold from non-refractory material at existing mines and refractory material by utilising the POX Hub, specifically to:

– continue to extract gold from non-refractory ores at the Albyn hard-rock gold mine in the Amur region;

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

– continue exploration of areas at, near or adjacent to the Pioneer, Malomir and Albyn mines to establish further non-refractory and refractory resources; and

– consider opportunities to form partnerships or joint-ventures with other participants in the Russian gold mining industry using the facilities and expertise at the POX Hub.

Our Strategic Objectives

Risks to strategy and strategic objectives monitored

Our strategic objectives

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

1. **Value-adding exploration**
2. **Asset development using in-house expertise and innovative processing technologies**
3. **Operational efficiencies**
4. **Optimising financial return**
5. **Operate responsibly and safely**

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

Key Performance Indicators (KPIs)

1

Value-adding exploration

What this means and why it is important to us
We aim to achieve sustainable, organic growth at our existing operations through in-house exploration to find new, quality gold reserves.

In order to prolong the life of mines and fast track what we find into doré gold bars with minimum capital expenditure, we are continuing to explore the vicinity of our mine sites and to look for quality resources which could be processed in our existing facilities.

In the longer term, we intend to seek out resources which could be potentially suitable for processing in our POX Hub, once this is commissioned.

Key highlights from 2014

– Successful exploration identified 1.3Moz of additional non-refractory JORC Ore Reserves, offsetting 2014 mine depletion.

– All new Resources and Reserves discovered close to existing processing facilities.

– Drilling discovered, extended or confirmed mineralisation in several areas of the Pioneer, Malomir and Albyn mine sites, notably at Andreevskaya, Vostochnaya, Alexandra and Brekchievaya (Pioneer), at Magnetitovoye, Kanavinskaya and Berezoviy (Malomir) and at Elginskoye and Unglichikanskoye (Albyn).

– At a non-refractory zone, Andreevskaya, high-grade extensions discovered adding c.100,000oz to JORC Mineral Resources at an average grade of c.34g/t suitable for open-pit extraction and processing at the Pioneer resin-in-pulp ('RIP') plant.

– An increase at Alexandra and Shirokaya of c.547,000oz of contained gold in the *Measured* and *Indicated* Resource categories and c.256,000oz in *Probable* Ore Reserves.

– Geological test work has indicated further promising areas at Group mine sites which are yet to be fully explored.

– Preliminary studies indicate the potential for developing a high-grade, underground mine at Pioneer.

2015 plans

– Continued exploration of areas potentially suitable for processing in existing plants and/or heap-leaching facilities, thus minimising immediate capital expenditure outlay.

– Continued work to classify new findings as JORC Mineral Resource with particular focus on the high-grade areas at the Pioneer and Malomir mines.

– Continued work to upgrade Mineral Resources into Ore Reserves.

– Exploration of deep high-grade extensions below Pioneer's operational open pits in order to support the design of an underground mine.

Mid to Long Term Plans

– Recommence exploration for refractory resources once the POX Hub has been commissioned (the project is currently on hold).

KPIs

Mineral resources

Mineral Resources (Moz)

2014	**23.3**
2013	25.8
2012	25.1
2011	24.6
2010	23.1

Definition
A Mineral Resource is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

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

Progress in 2014
During 2014, the Group adopted the JORC Code (2012). As the JORC Code (2012) operates to stricter guidelines than the JORC Code (2004) which the Group previously used, total Mineral Resources decreased by 2.5Moz. However, these write-offs do not affect the Group's production plan.

Due to the success of the Group's exploration programme, Mineral Reserves for the Albyn project area increased by c.510koz, despite depletion of c.200koz from mining, a net increase of c.710koz.

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

See pages 48 to 49 for for more information on the Group's Exploration, Ore Reserves and Mineral Resources.

Ore reserves

Ore Reserves (Moz)

2014	**9.2**
2013	9.2
2012	10.0
2011	10.2
2010	9.1

Definition
An Ore Reserve is the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore Reserves are sub-divided in order of increasing confidence into Proven and Probable.

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

Progress in 2014
During 2014 Group was able to maintain its total Ore Reserves at 9.2Moz despite depletion of c.0.72Moz as the result of mining and 0.86koz reduction in refractory reserves at Malomir due to application of more conservative modifying factors in conversion resources into reserves.

Going forward
Going forward, the Group is striving to continue to establish a high quality non-refractory reserve base and, in the longer term, add to its refractory reserves.

See pages 48 to 52 for for more information on the Group's Exploration, Ore Reserves and Mineral Resources.

2

Asset development using in-house expertise and innovative processing technologies

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

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

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

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

Future plans
– Plans for the development of an underground mine at Pioneer, which will produce gold from high-grade, non-refractory Resources.
– 2016-2019 annual review of the pressure oxidation (POX) project taking into account viability of finance and prevailing market conditions. Capital expenditure for the finalisation of construction of the POX plant is currently estimated at US$100 million due to the depreciation of the Rouble.

3

Operational efficiencies

What this means and why it is important to us

In order to achieve our business aim, we need to generate healthy gold sales at competitive margins. To achieve this, it is essential that we operate efficiently by employing careful mine planning and being mindful of ways we can reduce costs and increase productivity.

Key highlights from 2014

- Total gold production of 624.5koz: in line with previously-stated guidance.
- 38% increase in gold production at Albyn - the backbone of the Group's future production expansion.
- Significant decrease in mining and processing costs per unit at each of the Group's mines, apart from mining costs at Albyn due to the planned development of the pit.
- The Group is disclosing All-In Sustaining Costs ('AISC') and All-In Costs ('AIC') for the first time. In 2014 the Group achieved 22% reduction in AISC (US$970/oz for 2014 and US$1,248/oz for 2013) and 24% reduction in AIC (US$1,088/oz in 2014 and US$1,439/oz in 2013).
- 15% reduction in Total Average Cash Costs per ounce ('TCC/oz') to US$865/oz compared with 2013 (US$1,016/oz).
- A 25% reduction in TCC/oz at Pokrovskiy compared with 2013 (US$885/oz, vs. US$1,180/oz).
- An 18% reduction in TCC/oz at Albyn compared with 2013 (US$830/oz vs. US$1,006/oz).
- An 8% reduction in TCC/oz at Pioneer compared with 2013 (US$818/oz vs. US$887/oz).
- 2014 TCC/oz for Malomir were US$1,031/oz in line with the previous year (2013: US$1,027/oz), in spite of a 24% decrease in processed grades due to the cost-optimisation programme and a 21% average depreciation of the Rouble against the US Dollar. Cash costs at Malomir are affected by the scattered positioning of multiple deposits and high stripping coefficients.

2015 plans

- Targeted increase in total gold production to 680-700koz.
- Total cash costs per ounce of gold produced scheduled to decrease further to less than US$700/oz.
- Further 10-15% reduction in operating costs in 2015 planned using a systematic analysis of operating processes and capabilities to develop an optimal, sustainable operating model for each mine:
  - incorporating standardised operating systems;
  - implementation of new cost-saving technologies;
  - optimisation of management efficiency
  - optimisation of procurement; and
  - introduction of outsourcing.
- Optimised capital allocation.

Additional future plans

- Guidance maintained for average yearly production at the rate of c.600koz from non-refractory ores, using existing processing facilities and from existing JORC Reserves and Resources, at average TCC/oz of less US$700/oz. The exploration programme is ongoing and is expected to improve the base-case production schedule.

KPIs

Production

Total attributable gold production (koz)

Year	koz
2014	**624.5**
2013	741.2
2012	710.4
2011	630.1
2010	506.8

Definition

Measured in troy ounces, attributable gold production is the total of the gold produced from the Group's four hard-rock mines and alluvial operations, as well as shares in any joint ventures and investments, for the applicable years. The gold production figure consists of gold recovered during the period and adjusted for the movement of gold still in circuit.

Relevance

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 2014

In 2014, the Group produced 624.5koz of gold, in line with previously-stated guidance. This was lower than the 741.2koz of gold produced in 2013, in part, due to the sale of Berelekh, which operated high-cost alluvial operations in the Magadan region, during the third quarter of 2013. Of the 624.5koz of gold produced in 2014, c.29.1koz of gold were produced by the Group's remaining alluvial operations, held by the subsidiary Koboldo, the disposal of which was announced on 20 April 2015. On a like-for-like basis, excluding gold production from these assets and from the Group's alluvial assets which are held by Koboldo, of which the Group is negotiating disposal, the Group's four hard-rock gold mines produced approximately 595.4koz of gold in the year ended 31 December 2014 compared with approximately 656.4koz of gold in the year ended 31 December 2013.

Going forward

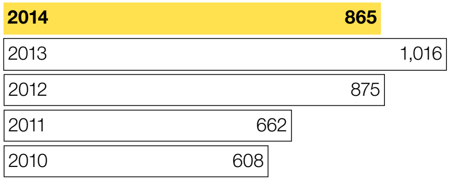
The Group is targeting production of 680,000oz-700,000oz of gold in 2015, which is an increase of 14-17% above the equivalent production level for 2014 of 595,400oz for the Group's four hard-rock mines. These figures exclude production from the Group's alluvial assets which are held by Koboldo, the disposal of which was announced on 20 April 2015.

Operating expenses

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

Year	US$/oz
2014	**860**
2013	976
2012	805
2011	586
2010	548

Total average cash costs (US$/oz)



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

Cash costs for hard-rock mines is the cost of producing and selling an ounce of gold from the Group's hard-rock mines (Pokrovskiy, Pioneer, Malomir and Albyn). The Group's four hard-rock mines are its key assets, producing more than 95% of the Group's total gold production for the year. The Board and Executive Committee monitor cash costs at the Group's hard-rock mines separately to its alluvial operations as cash costs for alluvial mining are made up differently, reflecting the different nature of this type of mining.

The key components of 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.

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

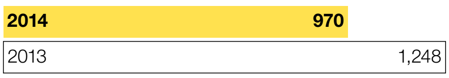
Relevance
The Group closely monitors its future and projected costs to track and benchmark the ongoing efficiency and effectiveness of its operations. This monitoring includes analysing the fluctuations in the components which constitute cash costs and cost per tonne mined and processed to identify whether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

Performance in 2014
Total cash costs for hard-rock mines decreased from US$976/oz in 2013 to US$860/oz in 2014, primarily reflecting the effect of cost optimisation measures undertaken by the Group in response to the declining gold price environment, improvement in recovery rates at Pokrovskiy and Albyn, increase in grades processed at Albyn and Rouble depreciation. Total average cash costs per ounce ('TCC/oz') decreased by 15% to US$865/oz compared with 2013 (US$1,016/oz).

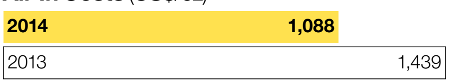
Going forward
The Group is projecting a significant decrease in its total average cash costs of production in 2015 to below US$700/oz, due to its continuing cost-cutting programme and the devaluation of the Rouble.

Go to pages 60 to 61 for further information on 2014 cash costs.

All-In Sustaining Costs (US$/oz)



All-In Costs (US$/oz)



Definition
All-in sustaining cash costs include both operating and capital costs required to sustain gold production on an ongoing basis. All-in costs are comprised of all-in sustaining costs as well as capital expenditures for major growth projects or enhancement capital for significant improvements at existing operations. All-in sustaining costs and all-in costs are calculated in accordance with guidelines for reporting all-in sustaining costs and all-in costs published by the World Gold Council in June 2013. For a calculation of all-in-sustaining costs and all-in costs, please refer to the section All-in costs of the Chief Financial Officer's Statement on page 62 of this report.

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

Performance in 2014
This period, the Group calculated and disclosed all-in sustaining costs and all-in costs for the first time.

AISC decreased from US$1,248/oz in 2013 to US$970/oz in 2014, reflecting the reduction in TCC as well as lower central administration expenses and sustaining capital expenditure related to the existing mining operations.

AIC decreased from US$1,439/oz in 2013 to US$1,088/oz in 2014, reflecting the decrease in all-in sustaining costs explained above, decrease in exploration expenditure and decrease of capital expenditure related to new projects, which was limited to fulfilling existing contractual commitments relating to POX.

Go to page 62 for a calculation of AISC and AIC.

4

Optimising financial return

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

Key highlights from 2014
– Foundations put in place for the successful completion of the Group's Refinancing on 18 March 2015, consisting of:
  – A pre-emptive 157 for 10 Rights Issue at £0.05 per Ordinary Share;
  – A new, five-year US$100 million convertible bond.
– Positive contribution from hedging activities of US$66/oz to the average realised gold price of US$1,331/oz (2013: US$1,519/oz).
– Underlying EBITDA of US$252 million (2013: US$325 million).

Key Performance Indicators (KPIs) continued

- Adjusted net profit from continuing operations of US$4.4 million, compared with a US$(1.5) million loss in 2013.
- Reduced net loss of US$348m (2013: US$713m) mainly due to the improvement in operating costs and a significant decrease in impairment charges. The loss is substantially attributable to non-cash items such as foreign exchange losses, related deferred tax and losses from discontinued operations (IRC).
- A further decrease in working capital of US$60 million as a result of continued optimisation mainly due to decrease in ore stockpiles and in stores and spares.
- Net cash flow from operating activities from continuing operations of US$169 million (2013: US$292 million).
- Net debt as of 31 December 2014 of US$930 million.
- Forward contracts to sell 50,000oz of gold at an average price of US$1,310/oz outstanding as at 31 December 2014. In October 2014, the Group also acquired 150,000oz of gold put options with a strike price of US$1,150/oz as part of a downside protection strategy. These mature in the first half of 2015.

2015 plans

- Focus on net debt reduction by maximising operating margins and free cash flows. In line with this strategy, net debt is expected to decrease below US$600 million by the end of 2015 assuming an average gold price of US$1,200/oz for the rest of 2015.
- Conservative borrowing policy with a medium-term Net Debt/EBITDA target of 1.5:1.
- Further 10-15% reduction in operating costs in 2015 planned using a systematic analysis of operating processes and capabilities to develop an optimal, sustainable operating model for each mine.
- Optimised capital allocation.
- A further, significant, year-on-year reduction in total capital expenditure for gold projects in 2015 to an estimated US$35 million (US$24 million exploration programme and US$11 million development and maintenance).
- Forward-sales contracts for a total of 26,600oz at an average gold price of US$1,311/oz and 77,000oz options with the strike price US$1,150/oz were outstanding as at 31 March 2015.

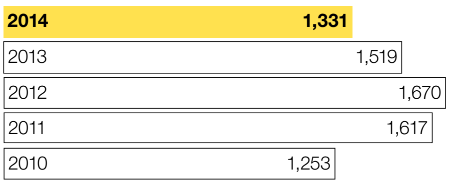
Additional future plans

- Continued focus on net debt reduction by maximising operating margins and free cash flows.
- 2016-2019 annual review of the pressure oxidation (POX) project, taking into account viability of finance and prevailing market conditions. Capital expenditure for the finalisation of construction of the POX plant is currently estimated at c.US$140 million due to the depreciation of the Rouble.

KPIs

Sales

Average realised gold sales price (US$/oz)



Definition
The average gold sales price is the mean price at which the Group sold its annual gold production output throughout the year. It is calculated by dividing total revenue received from gold sales by the total quantity of gold sold in the period.

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

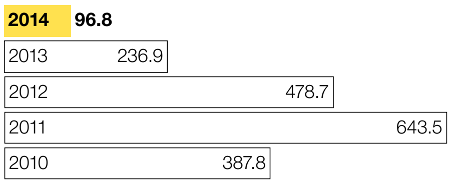
Performance in 2014
2014 saw a positive contribution of US$66/oz to the average realised gold price of US$1,331/oz (2013: US$1,519/oz) from hedging activities.

Going forward
Forward contracts to sell 50,000oz of gold at an average price of US$1,310/oz outstanding as at 31 December 2014. In October 2014, the Group also acquired 150,000oz of gold put options with a strike price of US$1,150/oz as part of a downside protection strategy. These mature in the first half of 2015.

Further details on the components of Group revenue and hedge arrangements may be found on pages 58 to 59.

Capital expenditure

Capital expenditure (US$m)



Definition
Capital expenditure is the funds required by the Group to undertake exploration, develop its gold assets and keep its current plants and other equipment at its gold mines in good working order.

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

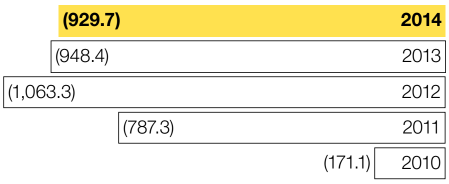
Performance in 2014
In 2014, total capital expenditure for gold projects decreased by c.60% to US$97 million compared to 2013 (US$237 million). This was in line with guidance. The key areas of focus in 2014 were on fulfilling existing contractual commitments relating to POX, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the main mining operations.

Going forward
The Group's capital expenditure requirements are scheduled to further decrease in 2015 to an estimated US$35 million. This reduction compared to 2014 will be achieved, in part, due to the continuation of only conducting essential maintenance work on the POX Hub. The planned capital expenditure of US$35 million will be split between continuing the Group's exploration programme (US$24 million) and development and maintenance (US$11 million).

A breakdown of 2014 capital expenditure may be found on page 68.

Net debt

Net debt (US$m)



Definition
Net debt is set out in note 30 to the consolidated financial statements.
Debt finance is raised in order to assist with the financing of projects' development.

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

Performance in 2014
Net debt as at 31 December 2014 stood at US$930 million, compared to US$948 million as at 31 December 2013.

Going forward
Following completion of the Refinancing, net debt was reduced by approximately 24% to US$707 million as at 31 March 2015.

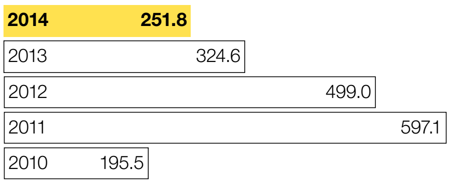
Going forward, the Group will focus on Net Debt reduction by maximising operating margins and free cash flows. In the near-term, this target will be assisted by a further decrease in capital expenditure (including exploration) requirements for 2015, steady gold production using existing processing facilities and a planned systematic analysis of operating processes and capabilities in order to develop an optimal, sustainable operating model for each mine to secure a further 10-15% reduction in operating costs in 2015.

The Group is forecasting its net debt to decrease to below US$600 million by the end of 2015 (assuming an average gold price of US$1,200/oz for the remainder of 2015).

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

Earnings

Underlying EBITDA (US$m)



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

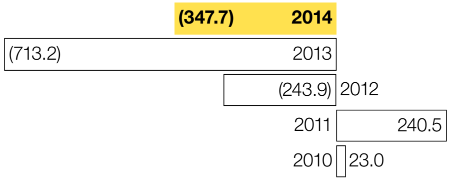
Relevance
Underlying EBITDA is an indicator of the Group's ability to generate operating cash flows which are the source of funding for the Group's working capital requirements, capital expenditure and debt service obligations.

Performance in 2014
For 2014, the Group generated Underlying EBITDA of US$252 million compared with US$325 million in 2013. This reduction was mainly due to a decrease in the average realised gold price from US$1,519/oz in 2013 to US$1,331/oz in 2014 and decrease in physical ounces sold. This effect was partially mitigated by the improvement of the total cash costs which had a net US$93.2 million positive contribution to the underlying EBITDA in 2014. Alluvial operations contributed US$10 million to the underlying EBITDA, in line with 2013.

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

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

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



Definition
Profit / (loss) for the period is calculated by deducting operating and net finance expenses, taxation and any relevant share of results of associates and adding / (deducting) profit / (loss) from discontinued operations 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.

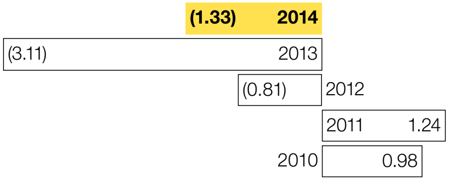
Performance in 2014
Net loss for 2014 was US$347.7 million, compared with a net loss of US$713.2 million in 2013.

Net loss from continuing operations amounted to US$182.2 million, compared to net loss of US$513.8 million in 2013.

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

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

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



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

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

The total number of Ordinary Shares in issue as at 31 December 2014 was 197,638,425 (31 December 2013: 197,638,425).

Performance in 2014
Basic loss per share for 2014 was US$1.33 compared with US$3.11 in 2013.

Basic loss per share from continuing operations for 2014 was US$0.94 compared to US$2.59 basic loss per share for 2013. The key factor affecting the basic loss per share was the decrease of net loss from continuing operations for the period attributable to equity holders of Petropavlovsk PLC from US$509.0 million for 2013 to US$184.3 million for 2014.

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

Calculation of EPS is set out in note 11 to the consolidated financial statements.

5

Operating responsibly

What this means and why it is important to us
Our success to date has been complemented by our commitment to act in a manner which is safe, responsible and supportive of the local communities in which we operate. This approach remains fundamental to the way in which we do business. Safeguarding employee welfare, investing in society and mitigating our impact on the environment are top priorities for the Group.

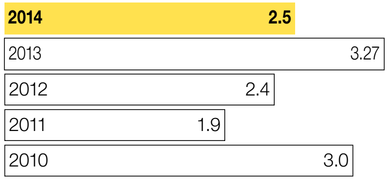
Key highlights from 2014
- Lost-time injury frequency rate (LTIFR) of 2.50 per million man hours worked, down from 3.27 per million man hours worked recorded for 2013.
- Adoption of new, targeted safety training programme to secure zero fatalities going forward.
- Successful environmental performance thanks to strict compliance with Russian legislation.
- Public hearings at Zlatoustovsk, a village near Albyn, to ensure the needs of local communities are met.
- Petropavlovsk Foundation invested 32.1 million Roubles into worthy causes in and around the areas in which the Group operates.

Additional future plans
- Continued improvements in safety performance at all sites in order to achieve a lower LTIFR and strive for zero fatalities.
- Ongoing environmental monitoring at all sites to ensure full compliance with Russian legislation.
- Continued investment in the Petropavlovsk Foundation.
- Continue to develop motivated and talented employees.
- Monitoring of greenhouse gas emissions with a particular emphasis on identifying trends and areas for improvement.

KPIs

Lost Time Injury Frequency Rate

LTIFR (per million man hours worked)



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

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

Performance in 2014
For the year ended 31 December 2014, Group operations (excluding IRC) recorded an LTIFR of 2.50 per million man hours worked.

Regrettably, there were three fatalities during 2014. Two of these fatal accidents occurred within open pits at the Malomir mine: the first occurred when an employee failed to observe the mandatory health and safety requirements, walked behind an excavator and was hit by a counterweight at the back of the machine; whereas the second such accident happened when the driver failed to engage the correct gear while driving uphill, out of the Magnetitovoye pit, and, as a result, the truck slid backwards and rolled off the road. The third fatality took place during the construction of an access road: while using a road roller, the operator approached of the edge of the road too closely, and the ground under the vehicle began to fail, which resulted in the machine sliding down, and rolling over and ending up on its side with the employee caught under, sustaining fatal injuries.

Although investigations conducted by the Russian authorities found that the Group was not liable for any of these fatalities, the Directors, nevertheless, consider this to be a tragic loss of life.

Consequently, during the second half of 2014 and in early 2015, the Group took the following additional steps aimed at securing zero fatal accidents going forward:

- A list of fatal accidents which had occurred in the Group for the period 1998-2014 (20 fatal accidents in total) was compiled (with all the personal data removed in order to preserve anonymity) ('The Fatal Accidents List');
- as a general method of raising awareness, the Fatal Accidents List was displayed on notice boards in Group administrative buildings to enable all employees to familiarise themselves with its contents; and
- following this, during the period of January-February 2015, a number of meetings were conducted at the mines and the service companies of the Group in order to bring to the attention of all of managers how the fatalities had occurred and how similar accidents could be prevented in the future.

Going forward
The Group is aiming for a low LTIFR and zero fatalities by seeking to implement new, or improve on existing, OH&S systems. These include the following measures, which arose from the discussions at the afore-mentioned divisional OH&S meetings:

- the Fatal Accidents List to be incorporated into the safety induction course for new employees and into the refresher course for returning employees;
- ensure all heads of departments and divisions are timely informed of all accidents across the Group (currently, this information is circulated among the HS Officers and routinely sent to the Board of Directors and the Executive Committee);
- greater level of accountability for heads of departments and subdivisions to ensure that management hold preventive discussions and issue written and verbal warnings for HS violations as and when required;
- persons violating safety requirements to undergo additional safety training in their own time – failure to attend such training would incur disciplinary action; and
- implementation of a 'near-miss' accident reporting system: a 'near-miss' accident being defined as an event causing no injuries, but having a potential danger of such. It is hoped that observing and dealing with such circumstances will enable the Group to prevent 'real' accidents.

Go to page 24 to 25 for more on health and safety.

Greenhouse gas ('GHG') emissions

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

Thus, in reporting and monitoring GHG emissions, the Group uses methodology according to the laws of the Russian Federation, namely the formulae, as approved under this legislation, for calculating the CO_2 equivalent (CO_2e) associated with our consumption of diesel, kerosene, benzene, and coal.

Under Russian legislation, the GHG emissions associated with grid electricity is reported by the generator. However, for transparency purposes, the GHG emissions associated with our consumption of electricity has been reported below. This is measured in tonnes of carbon dioxide and calculated using the DEFRA 2014 Scope 2 electricity conversion factor for the Russian Federation of 0.437 kilograms of CO_2 per kilowatt hour.

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

As a producer of gold, our prime metric is the amount of gold produced in a calendar year, measured in troy ounces. In 2014, the Group produced 624.5koz of gold and has used this figure to calculate our intensity metric.

Emissions from combustion of fuel and operation of facilities
(Tonnes of CO_2e)

2014	**281,657.7**
2013	287,293.4

Emissions from electricity, heat, steam and cooling purchased for own use
(Tonnes of CO_2)

2014	**268,066.0**
2013	237,834.0*

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

2014	**0.88**
2013	0.71*

** These figures have been revised from those previously reported due to a change in accounting procedures.*

Source of emissions
Emissions come from the following sources:

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

Kerosene – as used in our helicopters.

Benzene – used in cars.

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

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

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

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

Go to page 24 to 25 for more on environmental management.

Environmental, Safety and Social Report

The Group aims to operate in an efficient, safe, responsible and transparent way. Maintaining good relationships with local communities and the local authorities is a key priority for Petropavlovsk. The Group is committed to ensuring that local communities are actively involved in its development plans and that concerns are adequately addressed in public consultations. The Group values its employees and considers their experience, skills and expertise to be among its core strengths.

The Group considers that this approach has contributed to its success to date.

In Q1 2015, Wardell Armstrong, independent mining consultants, report that environmental and social performance at the Petropavlovsk assets is managed well and to a high standard. All four projects are fully permitted and each aspect has been reviewed and approved by State expertise.

Contribution to the local economy
The Group remains one of the largest employers in the Amur region. The Group's investment in education and training provides further job opportunities and helps to stimulate the local economy. The Group is a major tax payer in the Amur region. The Group uses local enterprises as suppliers wherever practically and economically possible.

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

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

Safety
The Group is committed to providing a safe working environment. The Group is committed to full compliance with Russian labour legislation, of which the most significant is the Labour Code of the Russian Federation. In line with the Russian Labour Code, a review of labour protection in the workplace is conducted regularly. The Group has health and safety management systems which supplement this legislation. The Group is committed to regularly examining all internal policies and procedures to ensure that they remain robust and effective and identifying, reviewing and evaluating OH&S risks to mitigate their impact effectively. All accidents are recorded and regular reports are submitted to the Executive Committee and the Board. A Board-level Health, Safety and Environmental Committee meets regularly to assess and evaluate, among other duties, OH&S management systems. Across the Group, on-site inspections are regularly conducted by management to ensure compliance with the H&S rules and regulations.

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

Equal opportunities
The Group is committed to providing equal opportunities and equal pay for individuals in all aspects of employment, regardless of their gender or background. This approach is also a legal requirement under UK and Russian law. In spite of this commitment, the number of male employees is disproportionately high compared to the number of female employees. As appointments are based on a candidate's skills, the Group believes that this imbalance is a reflection of the fact that the mining sector has been historically male-dominated. As at 31 December 2014, 1,871 employees were female, representing approximately 22% of the total Group workforce.

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

The Board considers its Senior managers principally to be its Executive Committee, being the body responsible for the day-to-day management of the Company. The Executive Committee consists of five Executive Directors and four members of Senior management. As at 31 December 2014, two members of the Executive Committee were female, including one Executive Director, representing 20% of the total membership of the Executive Committee. Excluding the Executive Directors, as at 31 December 2014, one member of the Executive Committee was female, representing 25% of Senior managers of the Executive Committee who are not also Executive Directors.

Although the Board is mindful of the continuing focus on the value of gender diversity, the Board has not set and does not intend to set, a specific target for the number of female members on the Board and will endeavour to appoint the best candidate available to us for any particular role. As of 31 December 2014, one Executive Director was female, representing approximately 8% of the total Board.

The Pokrovskiy Mining College
The Pokrovskiy Mining College (the 'College') is a residential and day-college situated close to the Pokrovskiy mine. The College was established by the Group in 2008 with the aim of providing specialist training for future Group employees. The College offers more than 40 types of mining courses. The College offers training in more than 40 mining professions. The College aims to provide employment to all its graduates and, therefore, it is of considerable benefit, not only to the Group, but also to the economy of the Amur region.

Charitable foundation
The Group is committed to promoting the social and economic development of the Amur region and improving the quality of life of the local community. This was one of the key principles in establishing the Petropavlovsk Foundation for Social Investment ('The Petropavlovsk Foundation') in 2010. The Foundation aims to contribute to, encourage and stimulate the sustainable socio-economic and cultural development of the areas in which the Group operates in the Russian Far East. It is hoped that this will not only improve the quality of life for local inhabitants, but also encourage investment into the region and ensure the Russian Far East is an attractive area to live and work. The Foundation works closely with regional and federal governmental authorities, local businesses, NGOs, local communities and local community organisations. The Foundation's investment activities are grouped under six priority areas: education, child development, culture, sport, quality of life and programmes aimed at encouraging socio-economic development in the Russian Far East through investment in local R&D institutions.

Public consultations

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

In conection with this commitment, in 2014, the Group conducted public hearings at Zlatoustovsk, a village near Albyn, in order to discuss any economic and environmental issues with local people. In attendance were the Minister for Natural Resources in the Amur Region, regional and district councillors, members of the local parliament and the representatives of public organisations.

Environmental management

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

In accordance with Russian legislation, the Group is required to obtain licences and permits from the Russian authorities in order to conduct mining and exploration activities, construct mine infrastructure, handle hazardous waste and utilise nearby water supplies. These licences and permits may include certain limits and conditions aimed at safeguarding the environment, protecting local wildlife and avoiding the infiltration of harmful chemicals into soil, air or groundwater. In addition, Russian legislation requires an environmental impact assessment report to be drawn up as part of the initial permitting process for a mining project. In accordance with these regulations, environmental monitoring is conducted throughout the life of the mine, from the exploration stage to decommissioning. The Group is required to conduct extensive environmental monitoring to ascertain any impact its activities may have on groundwater, rivers and streams, soil, air, plant and animal life. Monitoring data is collected in accordance with the schedules approved by the local state authorities and samples are analysed in Group laboratories, which are state accredited. In accordance with Russian legislation, all Group operations hold licences setting water usage quotas and stating where water may and may not be obtained from. Pit water is purified before it is discharged. The Group's RIP plants run using recycled water, reducing the amount of water extracted from local sources. Local water supplies are monitored for discharges.

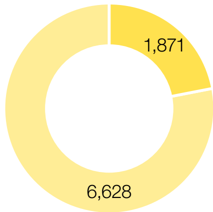
In compliance with Russian legislation, waste management programmes are agreed with regulatory authorities. These programmes outline waste disposal standards and stipulate limitations on waste produced or disposed of. Data on waste is collected and logged and sent to regulatory authorities for their review.

The Group is regulated by a number of Russian laws and environmental requirements designed to limit the impact of industrial activities on local wildlife, habitats and fauna. Fishing, hunting or poaching and the driving of vehicles outside designated areas is forbidden. Land may only be cleared within the limits of the obtained licences and permits.

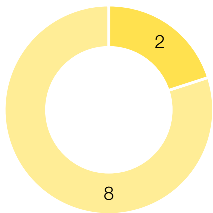
The Group uses purification systems, anti-dust equipment and other protective facilities to prevent the discharge of harmful substances into the atmosphere. All emission points, such as laboratories, crushing sites, boiler houses, and smelters are equipped with gas purifying equipment, which is monitored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

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

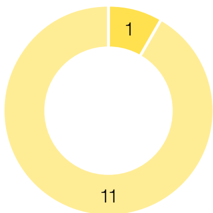
Breakdown of total number of employees (as at 31 December 2014)



Breakdown of members of the Executive Committee (as at 31 December 2014)



Breakdown of the Board of Directors (as at 31 December 2014)



Risks to Our Performance

Letter from the Risk Committee Chairman

Dear Shareholder,

Introduction

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

The Board's focus during 2014 and, indeed in the early months of 2015, was the need to refinance the Group's outstanding US$310.5 million 4% Convertible Bonds due 2015 (the 'Bonds') and negotiate waivers of certain covenants in the Group's banking facilities in order for the Group to continue as a going concern. The lack of funds to repay the Bonds and the potential breach of specified covenants in relation to the level of net debt and interest cover in certain of the Group's borrowing facilities were fully described in the 2013 Report of the Risk Committee.
The refinancing involved negotiations by the Board and executive management teams with both the Bondholders and the Group's Senior Lenders. These negotiations were particularly challenging, taking place against a backdrop of gold-price volatility and significant uncertainty in our key markets. Hence, these factors meant that progress with the negotiations was slower than the Board had anticipated.

Following the completion of the Refinancing the Group is in an improved financial positon and able to continue its operations with a strengthened balance sheet to support the development of the Group's substantial reserves and resources and better placed to take advantage of the significant operating margin that it now enjoys.

Membership of the Committee

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

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

Focus of the Committee in 2014 and issues for 2015

Given the critical importance of the refinancing for the Group, this issue, whilst being reviewed by the Committee at each meeting, was, during 2014, the central focus of the Board, the Audit Committee and the London executive management team with the executive team in Blagoveshchensk focusing principally on the delivery of the Group's operational performance.

Whilst the Committee is pleased to report that the immediate future of the Group has now been secured, the geo-political risk, highlighted in the Committee's 2013 Report has, to some extent, increased with certain sanctions imposed by the US and the EU against Russia in relation to the conflict in Ukraine. In addition, the completion of General Nice's and Minmetals' investment in IRC, the iron ore producing company in which the Group has a significant interest, anticipated in 2014, has not yet occurred. IRC is continuing discussions with these investors. However, the Board expects that, in the absence of completion of their investment, IRC will be able to raise additional funds, via another source of new equity or other sources of financing from third parties. In the event that the Company's interest in IRC is not diluted within the next 12 months there is an increased likelihood that IRC will be reconsolidated on the Group's balance sheet, thus significantly increasing the Group's net-debt.

The recent collapse of the iron ore price from US$135/t to below US$50/t resulted in IRC undertaking a critical strategic analysis for the future of Kuranakh. Fortunately for IRC's operations the impact of rouble weakness is a significant positive for reducing its costs. The net effect of these two variables to cashflow projects has been to strengthen IRC's position compared to some of its fellow iron ore producers. However, the lower iron ore price environment remains a risk for IRC, and hence for the Group, given the Company's 45.39% interest in IRC, and the Risk Committee will continue to monitor the situation and actions proposed by the Executive.

On a positive note, the gold price stabilised in 2014, reducing price risk for the Company.

Risk management framework

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

Executive Committee
Ongoing risk review and management of risks.

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

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

The Board considers that there are significant benefits to having Non-Executive Directors to provide oversight of risk issues and to challenge the risk management process and accordingly the Committee is comprised of a majority of independent Non-Executive Directors with two members comprising a quorum.

We held three meetings during the year. These were attended, at my invitation for all or part of any meeting, by individual Risk Owners (see below) to present details of specific risks relating to their areas and to discuss mitigating actions being taken, with appropriate challenge provided by the Committee. The Company Chairman and the Company Secretary, who acts as Secretary to the Committee, were also invited to attend.

In light of the proposed changes to the Board structure following the approval of the 2014 accounts as detailed in the Chairman's Statement, the composition of the Risk Committee will ultimately be reviewed and full details of these changes will be included in the 2015 Annual Report.

2014 principal risks report

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

Responsibility for each category is delegated to a 'Risk Owner' within the Executive Committee. Each Risk Owner is responsible for identifying risks in their risk area and the most significant risks are recorded in risk registers. The likelihood of occurrence and potential impact on the Group is assessed and mitigating controls which seek to remove or minimise the likelihood and impact of the risks before they occur are implemented. Risks are then re-assessed once appropriate mitigation is in place, although some risks by their nature cannot be mitigated by the Company.

Consideration of principal risks is a standing agenda item for Executive Committee meetings with particular focus on new and emerging risks. At each of its meetings, the Committee will review each risk area and the corresponding risk register and will discuss any issues of concern with the relevant 'Risk Owner' who are periodically invited to attend Committee meetings. The Committee will probe and test the risk identification process and the efficacy of the risk management strategy with the various 'Risk Owners'. The Committee also has responsibility for identifying the most significant Group-wide risks from the individual risk registers.

Principal risks relating to the Group
The most significant risks that may have an adverse impact on the Group's ability to meet its strategic objectives and to deliver shareholder value are set out on pages 28 to 37. Summarised alongside each risk is a description of its potential impact on the Group. Measures in place to manage or mitigate against each specific risk, where this is within the Group's control, are also described.

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

Changes to the 2014 principal risks table
No new risks are included in the following Table of Principal Risks and no risks have been removed. However for ease of reference the risks relating to IRC including the iron ore price and the possible funding shortfall have been combined into a separate 'IRC' risk. Given the completion of the refinancing and recent geo-political events many of the Principal Risks detailed have either decreased or increased and information in this regard is included in the Table.

Details of the Group's Principal Risks are detailed in the table below.

Categorisation of risks and risk owners

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

CEO/Deputy Chief Executive/COO

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

Chief Financial Officer

3 Health, safety and environmental ('HSE')
Workplace hazards that could result in liability for the Group or have an adverse impact on output.

CEO/ Deputy Chief Executive

4 Legal and regulatory
Risks that create potential for loss arising from uncertainty due to legal actions or uncertainty in the application of laws or regulations.

Group Head of Legal Affairs

5 Human resources
Risks associated with the recruitment and ongoing management of people.

Chief Executive Officer

6 Investor relations and external communications
Includes risks such as poor management of market expectations and false investor perception.

Group Head of External Communications

Risks to Our Performance continued

The symbols indicate how the Company considers that these risks have changed since 2013, both before and after mitigation.

↑ **Increase in level of risk**

→ **No change in level of risk**

↓ **Decrease in level of risk**

Table of principal risks

Operational risks

Risk	Description and potential impact	Mitigation
1. The Group is dependent on production from its operating mines in order to generate revenue and cash flow and comply with the production and sales covenants in certain of its borrowing facilities. **Factors which may impact the level of production include:** **i) Weather; and** **ii) Availability and failure of equipment or services.** **Additional information** Where We Operate on pages 38 and 39. Operational Performance on pages 40 to 47. → **Change in risk before mitigation**	i) The Group's assets are located in the Russian Far East, which is an area that can be subject to severe climatic conditions. Severe weather conditions, such as cold temperatures in winter and torrential rain, potentially causing flooding in the region could have an adverse impact on operations, including the delivery of supplies, equipment and fuel; and exploration and extraction levels may fall as a result of such climatic factors. ii) The Group relies on the supply and availability of various services and equipment in order to successfully run its operations. For example, timely delivery of mining equipment and jaw crushers and their availability is essential to the Group's ability to extract ore from the Group's assets and to crush the mined ore prior to production. Delay in the delivery or the failure of mining equipment could significantly delay production and impact the Group's profitability.	i) Preventative maintenance procedures are undertaken on a regular and periodic basis to ensure that machines will function properly under extreme cold weather conditions; heating plants at operational bases are regularly maintained and operational equipment is fitted with cold weather options which could assist in ensuring that equipment does not fail as a result of adverse weather conditions. Pumping systems are in place and tested periodically to ensure that they are functioning. Management monitor natural conditions in order to pre-empt any disaster and in order that appropriate mitigating action can be taken expediently. The Group aims to stock several months of essential supplies at each site. ii) The Group has a number of contingency plans in place to address any disruption to services. The Group has high operational standards and maintenance of equipment is undertaken on a regular basis. Equipment is inspected at the beginning and end of every shift and sufficient stocks of spare parts are available. Equipment is ordered with adequate lead time in order to prevent delays in the delivery of equipment. → **Change in risk after mitigation**
2. The Group's activities are reliant on the quantity and quality of the Mineral Resources and Ore Reserves available to it. **Additional information** Chief Executive Officer's Statement on pages 58 to 69. Exploration Report, Reserves and Resources on pages 48 to 52. → **Change in risk before mitigation**	Exploration activities are speculative and can be unproductive. These activities often require substantial expenditure to: establish Reserves through drilling and metallurgical and other testing, determine appropriate recovery processes to extract gold from the ore and construct or expand mining and processing facilities. Once deposits are discovered it can take several years to determine whether Reserves exist. During this time, the economic viability of production may change. As a result of these uncertainties, the exploration programmes in which the Group is engaged in may not result in the expansion or replacement of the current production with new Reserves or operations.	The Group's exploration budget is fixed for each asset at the start of each financial year depending upon previous results. In 2014, the Group continued to focus its exploration programme on areas at or close to its existing operating mines and in particular, on finding new, non-refractory resources. 2014 exploration results were reviewed by independent mining experts Wardell Armstrong International. The Group is using modern geophysical and geochemical exploration and surveying techniques. The Group employs a world class team of geologists with considerable regional expertise and experience. They are supported by a network of fully accredited laboratories capable of performing a range of assay work to high standards. → **Change in risk after mitigation**

Operational risks continued

Risk	Description and potential impact	Mitigation
3. The Group's Mineral Reserves and Ore Resources are estimates based on a range of assumptions. **Additional information** Exploration Report, Reserves and Resources on pages 52 to 58.	The Group's Mineral Reserves and Ore Resources are estimates based on a range of assumptions, including the results of exploratory drilling, ongoing sampling of the ore bodies; past experience with mining properties; and the experience of the expert engaged to carry out the reserve estimates. Other uncertainties inherent in estimating Reserves include subjective judgements and determinations based on available geological, technical, contractual and economic information. Some assumptions may be valid at the time of estimation but may change significantly when new information becomes available. Changes to any of these assumptions, on which the Group's Reserve and Resources estimates are based, could lead to the reported Reserves being restated. Changes in the Reserves and Resources could adversely impact the economic life of deposits and the profitability of the Group's operations.	The first stage of assurance of the accuracy of Reserves and Resources is by detailed analysis of geological samples in the Group's laboratories. These laboratories are licensed by the Russian authorities and use multiple quality assurance and quality control procedures. These procedures include the use of 'standards', 'blanks' and 'duplicates' as well as cross checking a percentage of all samples analysed, in an independent laboratory in Ulan Ude, Republic of Buryatia, Russia. The Mineral Resource and Ore Reserve estimates included in this Report for the Group's four principal gold deposits located in the Amur region, Far East Russia, prepared in accordance with the guidelines of the JORC Code (2012) were reviewed and signed-off by Wardell Armstrong International ('WAI') in April 2015. WAI is an independent consultancy that has provided the mineral industry with specialised geological, mining, and processing expertise since 1837. WAI has considerable knowledge of the Group's assets located at Malomir, Albyn, Pioneer and Pokrovskiy, having previously been the Independent Technical Engineer reporting Mineral Resources and Ore Reserves on an annual basis. In addition, WAI completed a comprehensive independent review of all gold exploration assets held by the Group in 2011 and again in 2014. As part of the 2015 review, WAI conducted a detailed assessment at each of the Group's mines. In addition, the Company publishes its Reserves and Resources estimates based on gold prices which are lower than the current market price of gold.
→ **Change in risk before mitigation**		↓ **Change in risk after mitigation**

Financial risks

Risk	Description and potential impact	Mitigation
1. Lack of funding and liquidity to allow the Group to: **i. support its existing operations;** **ii. invest in and develop its exploration projects;** **iii. extend the life and capacity of its existing mining operations; and** **iv. refinance/repay the Group's debt as it falls due.**	Adverse events or uncertainties affecting the gold price and/or the global financial markets could affect the Group's ability to raise new debt or refinance existing debt in the capital markets. It could also in future lead to higher borrowing costs. The Group needs ongoing access to liquidity and funding in order to (i) refinance its existing debt as required, (ii) support its existing operations and (iii) invest in new projects and exploration. There is a risk that the Group may be unable to obtain the necessary funds when required or that such funds will only be available on unfavourable terms. The Group may therefore be unable to develop and/or meet its operational or financial commitments.	The Refinancing involving: – the issue of a new US$100m 9% Convertible Bond due 2020; and – a rights issue to Shareholders of new Ordinary Shares with a value of £155.1m (US$235.4m), in order to repay the Group's 4% Convertible Bonds due 2015 was completed on 18 March 2015. This has secured the immediate future of the Group. The Group continues to focus on cost reduction and operational efficiency. The Group continues to maintain its available cash with several reputable major Russian and international banks and does not keep disproportionately large sums on deposit with a single bank. Strong relationships are maintained between the Company and existing and potential equity and debt providers.
If the operational performance of the business declines significantly the Company will breach one or more of the financial and production covenants as set out in various financing arrangements.	The Group's borrowing facilities include a requirement to comply with certain specified covenants in relation to the level of net debt and interest cover. A breach of these covenants could result in a significant proportion of the Group's borrowings becoming repayable immediately. In the absence of refinancing the Group was forecast to breach certain covenants in its banking facilities at 31 December 2014.	As part of the Refinancing the Group negotiated waivers or relaxation of certain financial covenants in its banking facilities with the Group's Senior Lenders (Sberbank and VTB) and ICBC. These covenant waivers are effective as at the end of 2014 and during 2015.

Additional information

Chairman's Statement on pages 4 to 5.
Chief Executive Officer's Statement on pages 6 to 9.
Chief Financial Officer's Statement on pages 58 to 69.
Audit Committee Report on pages 81 to 86.

↑ **Change in risk before mitigation**

↓ **Change in risk after mitigation**

Financial risks continued

Risk	Description and potential impact	Mitigation
2. The Group's results of operations may be affected by changes in the gold price. **Additional information** Chairman's Statement on pages 4 to 5. Gold Market Overview on pages 10 to 11. Chief Financial Officer's Statement on pages 58 to 69. **Change in risk before mitigation**	A sustained downward movement in the market price for gold may negatively affect the Group's profitability and cash flow. The market price of gold is volatile and is affected by numerous factors which are beyond the Company's control. These factors include world production levels, global and regional economic and political events, international economic trends, inflation, currency exchange fluctuations and the political and economic conditions of major gold-producing countries. Additionally the purchase and sale of gold by central banks or other large holders or dealers may also have an impact on the market.	The Executive Committee monitors the gold price and influencing factors on a daily basis and consults with the Board as appropriate. The Executive and the Board review the Group's hedging position on a regular basis. In October 2014, the Group purchased a number of gold put options for an aggregate of 150,000 ounces of gold with a strike price of US$1,150/oz as part of its downside protection strategy. The option contracts mature over the period from January 2015 to June 2015. The aggregate premium paid was US$4.8 million. Forward contracts to sell an aggregate of 50,000 ounces of gold at an average price of US$1,310 per ounce were outstanding as at 31 December 2014. The success of the Group's recent exploration programme has enabled the Board to increase its gold production target from non-refractory ore to 680,000-700,000oz for 2015. Whilst the effect of the continuation of the cost-cutting programme introduced in 2013, along with the depreciation of the Rouble against the US Dollar, has enabled the Group to reduce its 2015 TCC/oz target to lower than US$700/oz, this is based on the present Rouble exchange rate and assuming inflation does not increase. The Group intends to continue to minimise overhead costs and to operate and maintain low-cost and efficient operations in order to optimise the Group's returns. **Change in risk after mitigation**

Financial risks continued

Risk	Description and potential impact	Mitigation
3. Currency fluctuations may affect the Group. **Additional information** Chief Financial Officer's Statement on page 68. **Change in risk before mitigation**	The Company reports its results in US Dollars, which is the currency in which gold is principally traded and therefore in which most of the Group's revenue is generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. The appreciation of the Russian Rouble against the US Dollar tends to result in an increase in the Group's costs relative to its revenues, whereas the depreciation of the Russian Rouble against the US Dollar tends to result in lower Group costs relative to its revenues. A portion of the Group corporate overhead is denominated in Sterling. Therefore, adverse currency movements may materially affect the Group's financial condition and results of operations. In addition, if inflation in Russia were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, the Group's business, results of operations and financial condition may be adversely affected.	The Group has adopted a policy of holding a minimum amount of cash and monetary assets or liabilities in non US Dollar currencies and operates an internal funding structure which seeks to minimise foreign exchange exposure. Despite ongoing inflation of Rouble denominated costs, in particular electricity costs and diesel costs which both increased by 4%, the Group's operations benefitted from the weakness of the Russian Rouble during 2014. **Change in risk after mitigation**
4. The Company has a majority stake in IRC, a Hong Kong Listed, iron ore producing company: **Funding may be demanded from Petropavlovsk under a guarantee in favour of ICBC.** **Additional information** Audit Committee Report on pages 81 to 86. IRC 2014 Annual Report, which can be obtained at http://www.ircgroup.com.hk.	Petropavlovsk has provided a guarantee against a US$340 million loan facility provided to K&S by ICBC to fund the construction of IRC's mining operations at the K&S mine. In the event that K&S was to default on its loan, Petropavlovsk may be liable to repayment of the outstanding loan under the terms of the guarantee. Under the terms of the Company's amended banking facilities with VTB and Sberbank, the Company is unable to provide any funds to IRC without the prior consent of these lenders.	The Group ensures constant monitoring of IRC's performance through (1) IRC presentations to the Petropavlovsk Board (2) attendance of IRC Chairman and CEO at Petropavlovsk Executive Committee meetings and (3) regular communication between the Group CFO and the IRC CFO. Subject to the completion of the investment in IRC Ltd (see note 27), an indemnity entered into by the Company and General Nice on 17 January 2013 will come into effect (the 'Indemnity'). Pursuant to the Indemnity, General Nice will, while the Indemnity remains in effect, indemnify the Company in respect of payments made by Petropavlovsk in respect of the ICBC guarantee or under the terms of a recourse agreement entered into between the Company, IRC and K&S on 13 December 2010 in proportion to their respective holdings in IRC.

Financial risks continued

Risk	Description and potential impact	Mitigation
		In addition, following the completion of the investment, General Nice and Minmetals have agreed to use their respective reasonable efforts to assist Petropavlovsk with the removal of the ICBC bank guarantee. The completion of the investment in IRC Ltd by General Nice and Minmetals approved by Shareholders in March 2013 (see note 27), has not completed. As at 31 December 2014 the Group's interest in IRC was 45.39%. Although discussions with General Nice and Minmetals are ongoing it is not certain that the investment will complete. If the investment does not complete the Indemnity will not come into effect.
The Company classifies IRC as an 'asset held for sale', if the Company is unable to reduce its percentage holding in IRC shares the assets of IRC may need to be reclassified at a future balance sheet date out of 'held for sale'.	If the IRC assets are reclassified out of 'held for sale', IRC would be re-consolidated on a line-by-line basis, which would increase the Group's reported net debt and net finance charges positions.	IRC is continuing discussions with General Nice and Minmetals regarding their investment and in the absence of this, the IRC Board expects that IRC will be able to raise additional funds, from other third party investors in new IRC equity. Any of these actions is expected to reduce the Company's interest in IRC such that the Company will lose control of IRC and IRC will be accounted for as an associate.
The Group's results of operations may be affected by changes in the iron ore price.	The market price of iron ore can be volatile. Iron ores price have declined sharply over the course of the last year. The price of iron ore halved from US$135 per tonne for the benchmark 62% product for delivery to China at the start of 2013 to US$71 per tonne by the end of the year The iron ore price is currently approximately US$50/t. Iron ore prices have declined due to a combination of weakness in demand and rising global iron ore production, resulting in an oversupply situation.	The IRC Board has conducted a strategic review at Kuranakh and has implemented a severe cost-cutting exercise.
↑ **Change in risk before mitigation**		↑ **Change in risk after mitigation**

Health, safety and environmental risks

Risk	Description and potential impact	Mitigation
1. Failures in the Group's health and safety processes and/or breach of Occupational Health & Safety legislation. **Additional information** Our Business Model on page 12. Environmental, Safety and Social Report on pages 24 and 25. **Change in risk before mitigation**	The Group's employees are one of its most valuable assets. The Group recognises that it has an obligation to protect the health of its employees and that they have the right to operate in a safe working environment. Certain of the Group's operations are carried out under potentially hazardous conditions. Group employees may become exposed to health and safety risks which may lead to the occurrence of work-related accidents and harm to the Group's employees. These could also result in production delays and financial loss.	Health and Safety management systems are in place across the Group to ensure that the operations are managed in accordance with the relevant health and safety regulations and requirements. The Group has an established health and safety training programme under which its employees undergo initial training on commencement of employment and take part in refresher training on a regular basis. The Group continually reviews and updates its health and safety procedures in order to minimise the risk of accidents and improve accident response, including additional and enhanced technical measures at all sites, improved first aid response and the provision of further occupational, health and safety training. The Group operates a prompt incident reporting system to the Executive Committee and the Board. Unfortunately there were three fatalities during 2014 (2013: 2). These fatalities were reported immediately to the Chairman and to the Health, Safety and Environmental ('HSE') Committee. The incidents in both 2013 and 2014 were investigated by the Russian authorities who have confirmed that no action will be taken against the Company as the Company was not found to be at fault for any of these accidents. The HSE Committee discussed each of the fatalities in detail to identify whether any actions could be taken or further training provided to mitigate against any reoccurrence of a similar accident. Further safety awareness training was subsequently provided to all of the safety officers in the Group's operations. Board level oversight of health and safety issues occurs through the work of the HSE Committee. **Change in risk after mitigation**
2. The Group's operations require the use of hazardous substances including cyanide and other reagents. **Additional information** Environmental, Safety and Social Report on pages 24 and 25. **Change in risk before mitigation**	Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community.	Cyanide and other dangerous substances are kept in secure storages with limited access only to qualified personnel, with access closely monitored by security staff. Regular monitoring is undertaken to rule out discharges to groundwater and soil. **Change in risk after mitigation**

Legal and regulatory risks

Risk	Description and potential impact	Mitigation
1. The Group requires various licences and permits in order to operate. **Change in risk before mitigation**	The Group's principal activity is the mining of precious and non-precious metals which requires 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 could have a material adverse impact on the Group. In addition, various government regulations require the Group to obtain permits to implement new projects or to renew existing permits. Failure to comply with the requirements and terms of these licenses may result in the subsequent termination of licenses crucial to operations and cause reputational damage. Alternatively, financial or legal sanctions could be imposed on the Group. Failure to secure new licences or renew existing ones could lead to the cessation of mining at the Group's operations or an inability to expand operations.	There are established processes in place to monitor the required and existing licences and permits on an on-going basis and processes are also in place to ensure compliance with the requirements of the licences and permits. Schedules are presented to the Executive Committee detailing compliance with the Group's licences and permits. **Change in risk after mitigation**
2. The Group is subject to risks associated with operating in Russia.	Actions by governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets could have an adverse impact on the Group's business or its future performance. Most of the Group's assets and operations are based in Russia. Russian foreign investment legislation imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including in respect of gold reserves in excess of a specified amount or any occurrences of platinum group metals. The Group's Pioneer and Malomir licences have been included on the list of subsoil assets of federal significance, maintained by the Russian Government ('Strategic Assets'). The impact of this classification is that changes to the direct or indirect ownership of these licences may require obtaining clearance in accordance with the Foreign Strategic Investment law of the Russian Federation. Fluctuations in the global economy may adversely affect Russia's economy. Russia's economy is increasingly dependent on global economic trends and is more vulnerable to	To mitigate the Russian economic and banking risk the Group strives to use the banking services of several financial institutions and not keep disproportionately large sums on deposit with a single bank. The Group seeks to mitigate the political and legal risk by monitoring of the proposed and newly adopted legislation to adapt to the changing regulatory environment in the countries in which it operates and specifically in Russia. It also relies on the advice of external counsel in relation to the interpretation and implementation within the Group of new legislation. The Group continues to closely monitor its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government. New Articles of Association were adopted by Special Resolution of Shareholders of the Company on 26 February 2015. The Articles include a provision which allows the Board to impose such restrictions as the Directors may think necessary for the purpose of ensuring that no ordinary shares in the Company are acquired or held or transferred to any person in breach of Russian legislation, including any

Legal and regulatory risks continued

Risk	Description and potential impact	Mitigation
	market downturns and economic slowdowns elsewhere in the world, as well as to reductions and fluctuations in the prices of hydrocarbons and minerals.	person having acquired (or who would as a result of any transfer acquire) ordinary shares or an interest in ordinary shares which, together with any other shares in which that person or members of their group is deemed to have an interest for the purposes of the Strategic Asset Laws, carry voting rights, exceeding 50 per cent (or such lower number as the Board may determine in the context of the Strategic Asset Laws) of the total voting rights attributable to the issued ordinary shares without such acquisition having been approved, where such approval is required, pursuant to the Strategic Asset Laws. This risk cannot be influenced by the management of the Company. However, the Group monitors changes in the political environment and reviews changes to the relevant legislation, policies and practices.
→ Change in risk before mitigation		→ Change in risk after mitigation
3. The Group may be subject to risks arising from the political uncertainty within Russia.	Following volatility in eastern Ukraine in late 2013 and 2014, the United States Treasury and the EU imposed financial sanctions over many Russian financial institutions and companies in the energy and defence sectors. The sanctioned entities are restricted from issuing new equity or long-term debt in the United States and EU markets which could have a material effect on their ability to raise financing. It is also possible that the sanctions may be extended in the future and could result in diminished investor confidence in Russia, the possibility of increased capital flight and weaker economic growth. In response to the sanctions Russia has enforced certain input restrictions on Russian companies in respect of products emanating from states that have imposed sanctions, which could lead to greater instability in the Russian economy, which could have a material adverse effect on the value of investments relating to Russia and on the Group's business, results of operations and financial condition. The increase in the perceived risk of investing in Russia could also be detrimental to the Group.	The Group has no assets or operations in Ukraine. The Group produces gold from its Russian mines and sells this gold to Russian licensed banks. The Board and the Executive continue to monitor the position. The Company maintains an ongoing dialogue with its Shareholders and potential investors.
↑ Change in risk before mitigation		↑ Change in risk after mitigation

Human resources risks

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

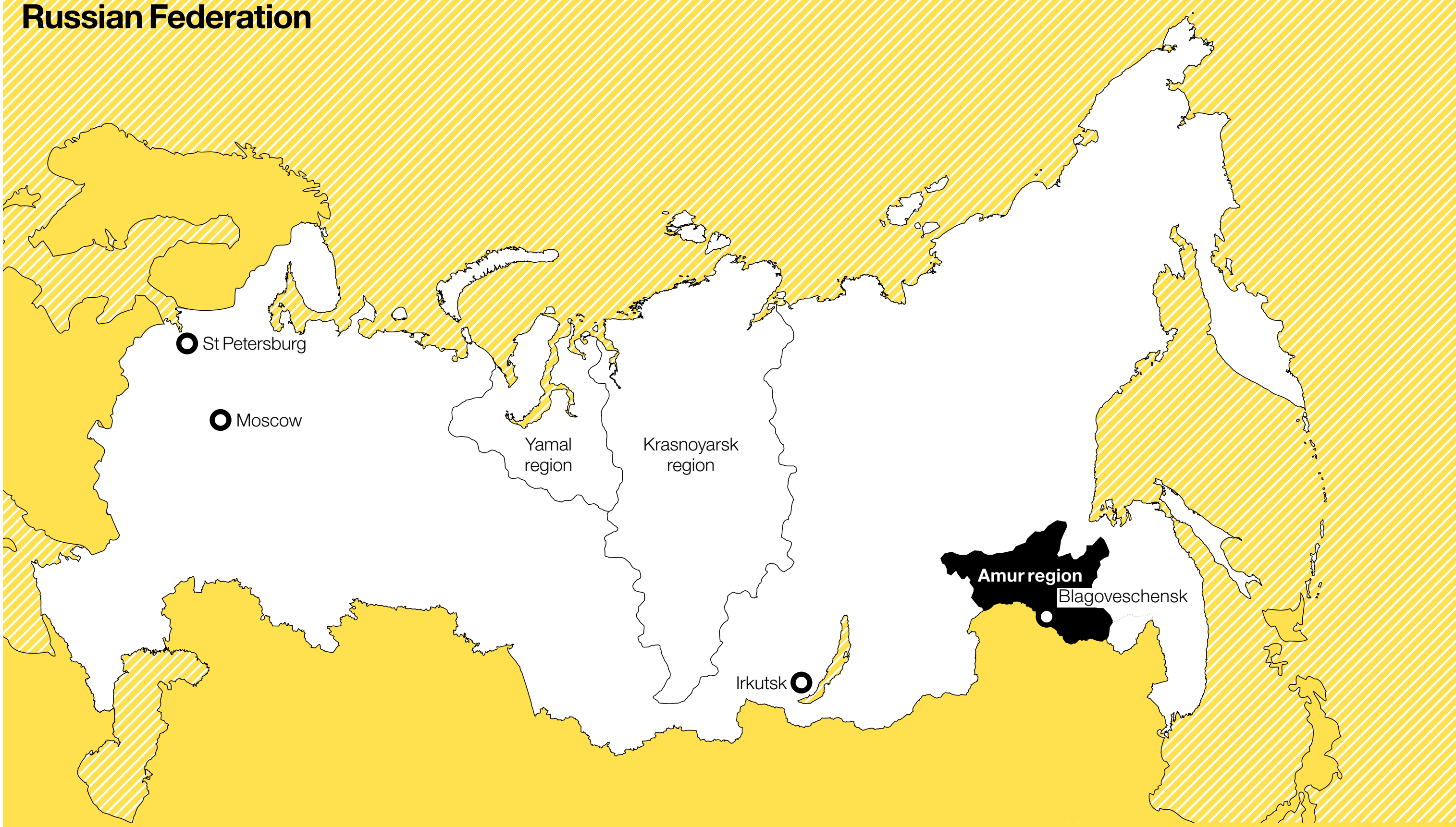
Overview
As a result of its work undertaken during year, the Risk Committee has concluded that it has acted in accordance with its terms of reference. Sir Roderic Lyne will be available at the 2015 Annual General Meeting to answer any questions about the work of the Risk Committee.

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

Lord Guthrie
Chairman of the Risk Committee
28 April 2015

Where We Operate

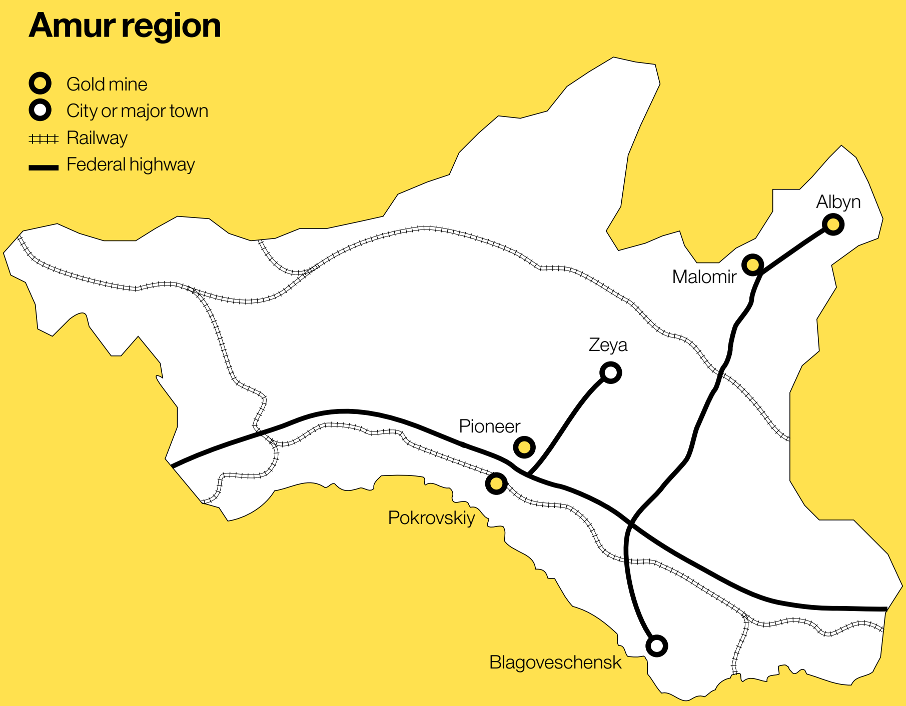
Russian Federation



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

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

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



The Amur region
Our core operations are in the Amur region in the Russian Far East, where we have been active since 1994. Today, we are a leading employer in the Amur region and a contributor to the development of the region's local economy. The Amur region has a total area of approximately 361,600km^2 and a population of approximately 1 million people, the majority of whom live in Blagoveschensk, the regional capital. The Amur region benefits from well-developed infrastructure, access to hydro-electric power and a strong mining tradition as it lies across one of the world's major belts of mineralisation.

Our gold mines

The Group's key mining assets are Pioneer, Pokrovskiy, Malomir and Albyn and their satellites, which are all located in the Amur region.

Pioneer

Pioneer is one of the largest gold mines in Russia and is also the Group's flagship mine accounting for approximately 42% of the Group's total gold production in 2014. Pioneer was acquired as a greenfield site in 2001 and was explored, developed and built using in-house expertise. Since commissioning in 2008, the resin-in-pulp (RIP) plant has been expanded in phases to reach its current processing capacity of approximately 6.6Mtpa. As at 31 December 2014, Pioneer had produced approximately 1.9Moz of gold. As at 31 December 2014, Pioneer had 5.5Moz of Mineral Resources, of which 2.9Moz were Ore Reserves. The Pioneer project area is still being actively explored and has high potential for increases in reserves to be identified.

Turn to page 40 for more on Pioneer.

Pokrovskiy

Pokrovskiy is the Group's oldest mine and has produced approximately 1.9Moz of gold since commissioning in 1999. Pokrovskiy remains one of the Group's key assets not only because it is a producing gold mine but also due to its strategic location and infrastructure. As at 31 December 2014, Pokrovskiy (including Burinda) had 1.3Moz of Mineral Resources of which 0.4Moz were Ore Reserves. As the mine gradually comes towards the end of its life, the Group plans to turn the Pokrovskiy site into a POX Hub which is expected to enable the Group to process refractory ore reserves.

Turn to page 42 for more on Pokrovskiy.

Malomir

Malomir was acquired by the Group as a greenfield site and is now one of the largest gold mines in Russia in terms of its reserves and resources. As at 31 December 2014, Malomir's Mineral Resources stood at 6.9Moz of which 3.1Moz were Ore Reserves. The Malomir project area is still being actively explored, with several promising discoveries made in 2014. As at 31 December 2014, Malomir had produced approximately 426,000oz of gold since commissioning in mid-2010.

Turn to page 44 for more on Malomir.

Albyn

Albyn is the Group's newest mine. The Group acquired its first licence for Albyn in 2005, when the project area was still a greenfield site. The mine was subsequently explored, developed and built using in-house expertise. The RIP plant was commissioned in the fourth quarter of 2011 and it has produced approximately 411,000oz of gold between commissioning and 31 December 2014. As at 31 December 2014, Albyn had 4.6Moz of Mineral Resources, of which 1.4Moz were Ore Reserves. Large areas adjacent to the mine remain under-explored and Group geologists consider Albyn to be highly prospective for further, significant gold discoveries.

Turn to page 46 for more on Albyn.

Operational Performance

Pioneer

Key facts

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

Mining
Currently open-pit; plans for underground mining.

Processing
On-site c.6.6Mtpa RIP plant plus heap-leach facility (currently only non-refractory ore is being processed).

Developmental history
Acquired in 2001 as a greenfield project, subsequently developed in-house into one of Russia's largest gold mines.

Reserves and resources
2.9Moz of Ore Reserves and 5.5Moz of Mineral Resources.

2014 gold production
c.263.0koz, equating to c.42% of the Group's total gold production for 2014.

Progress against strategic priorities

Value-adding exploration
High-grade, non-refractory extensions to the Andreevskaya deposit were confirmed by drilling; additional, significant results obtained from other mine site areas.

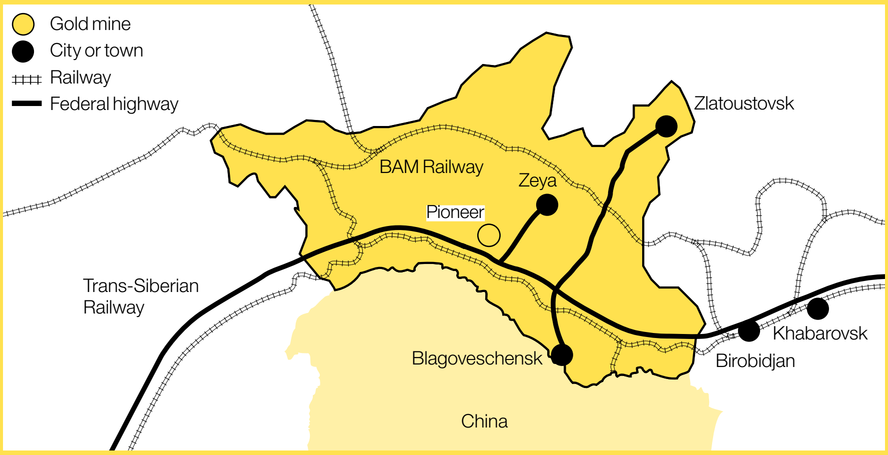
Asset development
A notional economic assessment conducted in 2014 indicated the potential for the development of an underground mine with a high economic return at a gold price of above US$800/oz.

Operational efficiencies
c.263.0koz of gold produced in 2014 (2013: 314.8koz) at a total cash cost of US$818/oz (2013: US$887/oz).

Operating responsibly and safely
LTIFR of 2.15 per million man hours worked recorded.

Location and infrastructure

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



Introduction
Pioneer is one of the largest gold mines in Russia. Acquired as a greenfield site in 2001, it was subsequently extensively explored and developed by the Group. A small-scale RIP plant was commissioned in 2008 and subsequently expanded in phases using the Group's in-house expertise. At present, the capacity of the Pioneer RIP plant is approximately 6.6Mtpa. In addition, the mine operates a seasonal heap-leaching facility. Between its commissioning by the Group in 2008 and 31 December 2014, the mine has produced approximately 1.9Moz of gold. As at 31 December 2014, Pioneer had approximately 5.5Moz of Mineral Resources, of which approximately 2.9Moz were Ore Reserves. The total licence area for the Pioneer project covers 524.8km^2 and is still being actively explored. Group geologists consider that many areas within the Pioneer project area have the potential to add to the mine's reserve base.

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

The Pioneer deposit consists of several ore zones. Of these, Andreevskaya and North-East (NE) Bakhmut are considered to be high-grade and have significantly contributed to the mine's production profile to date. Group geologists subsequently identified several further sequential ore zones, of which Alexandra and Shirokaya are the most significant.

Approximately 40% of Pioneer's Ore Reserves are non-refractory and can be processed at the mine's existing facilities. The remaining ore is refractory and is not suitable for direct cyanidation processing methods due to its mineralogy. The Group currently expects that this material will be processed into flotation concentrate which will then be trucked approximately 35km by existing roads to the Pokrovskiy site for processing in the planned POX Hub, once these facilities are commissioned.

Reserves and Resources (as at 31 December 2014) (WAI, April 2015 in Accordance with JORC Code 2012)

	Non-refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Reserves	59,901	0.75	1.44	46,563	0.98	1.46	106,464	0.85	2.91
Measured and *Indicated* Resources	83,753	0.70	1.89	99,919	0.76	2.44	183,672	0.73	4.32
Inferred Resources	24,856	0.62	0.50	37,698	0.57	0.70	62,554	0.59	1.20

Mining and processing

Pioneer is the Group's flagship mine, producing the majority of its total gold production each year. Currently, mining at Pioneer is entirely open-pit and only the mine's non-refractory ore is being processed.

In 2014, approximately 89% of the ore processed annually at Pioneer is processed in an on-site RIP plant, which operates throughout the year. The remaining, lower-grade material, is processed in an on-site heap-leaching facility. This facility is only operational during the warmer months of the year, typically from April until November.

Performance in 2014

In 2014, Pioneer produced approximately 263,000oz, equating to approximately 42% of the Group's total gold production for the year.

The majority of the ore mined at Pioneer during the year came from the three NE Bakhmut pits. Pits 6.1 and 6.2 continued throughout the year and pit 6.3 was completed in June and subsequently backfilled.

During the first six months of 2014, the western section of the Andreevskaya main pit was completed and backfilling commenced. The expansion of the Andreevskaya East commenced.

Mining of soft oxidised ores was intensified in Pit 1 and the southwest flank of Pit 2 in order to achieve a suitable blend to maintain throughput at the plant, which operated in line with the Group's forecast.

Low-grade ore for feed to both the heap-leach and the processing plant commenced at pit 7 at the end of the second quarter of 2014.

During Q3, Alexandra was prepared for bulk sampling and, in Q4, large diesel-powered excavators commenced full-scale mining operations here. Alexandra will become the largest operating pit at Pioneer by 2016.

During the second half of 2014, mining continued at Pits 6.1 and 6.2. Head grades through the Pioneer plant averaged 1.6g/t in Q3 and 1.47g/t in Q4 2014.

Pioneer mining operations

	Units	Year ended 31 December 2014	Year ended 31 December 2013
Total material moved	m^3 '000	26,226	30,825
Ore mined	t '000	7,104	4,588
Average grade	g/t	1.4	2.0
Gold content	oz '000	319.9	301.6

Pioneer processing operations

	Units	Year ended 31 December 2014	Year ended 31 December 2013
Resin-in-pulp ('RIP') plant			
Total milled	t '000	6,626	6,583
Average grade	g/t	1.49	1.8
Gold content	oz '000	316.6	371.3
Recovery rate	%	81.1	82.0
Gold recovered	oz '000	257	304.5
Heap leach operations			
Ore stacked	t '000	791	1,005
Average grade	g/t	0.6	0.7
Gold content	oz '000	15.8	21.0
Recovery rate	%	39.6	48.9
Gold recovered	oz '000	6.2	10.3
Total gold recovered	oz '000	263.0	314.8

In the fourth quarter of 2014, the high-grade ore came from the NE Bakhmut pits and Andreevskaya and the low-grade ore came from Pit 7 and Alexandra.

Costs

For the period ended 31 December 2014, TCC/oz for Pioneer were US$818/oz, a c.8% reduction compared with 2013 (US$887/oz), in spite of a 17% decrease in grades processed through the mill, a slight decrease in recovery rates and ongoing inflation of Rouble-denominated costs. The improvement in costs was also due to a programme of cost-optimisation measures and by the 21% average depreciation of the Rouble against the US Dollar.

Outlook

In 2015, Pioneer is expected to produce c.340,000 – 350,000oz of gold equating to approximately 50% of the Group's total production for the year.

In the longer term, in order to process the mine's large reserves of refractory ore, the Group is planning to construct a flotation plant at Pioneer, which will convert the refractory ore into flotation concentrate. This would then be sent for processing to the POX Hub, once completed.

In 2014, Group geologists began to evaluate the possibility of developing underground mining plans at Pioneer. The results of the evaluation so far have been encouraging, however work remains at an early stage.

Turn to page 50 for more on exploration at Pioneer.

Turn to page 53 for more on the POX Hub and the development of an underground mining proposal at Pioneer.

Notes to the above Ore Reserves and Mineral Resources table:

- *a cut-off grade has been applied of 0.3 g/t for non-refractory and 0.4 g/t for refractory;*
- *Mineral Resources are constrained by a US$1,500/oz conceptual pit shell;*
- *Ore Reserves are limited by a mine design based on an optimal pit shell at US$1,250/oz gold price;*
- *Mineral Resources are inclusive of Ore Reserves;*
- *Figures may not add up due to rounding.*

Pokrovskiy

Key facts

Deposit type
Hard-rock deposits consisting of non-refractory ore.

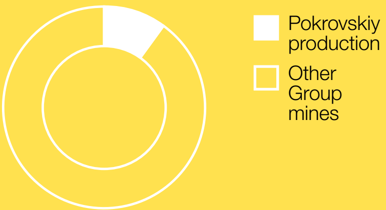
Mining
Open pit.

Processing
On-site RIP plant plus seasonal heap-leach facility; plans for development of site into the POX Hub.

Developmental history
Acquired in 1994 and subsequently developed in-house with the heap-leaching facility commissioned in 1999 and RIP plant in 2002.

Reserves and resources
0.4Moz of Ore Reserves and 1.3Moz of Mineral Resources (including the satellite Burinda deposit).

2014 gold production
c.64.2koz, equating to c.10% of the Group's total gold production for 2014.



Progress against strategic priorities

Value-adding exploration
Exploration conducted in previous periods resulted in the extension of the mine life at Pokrovskiy.

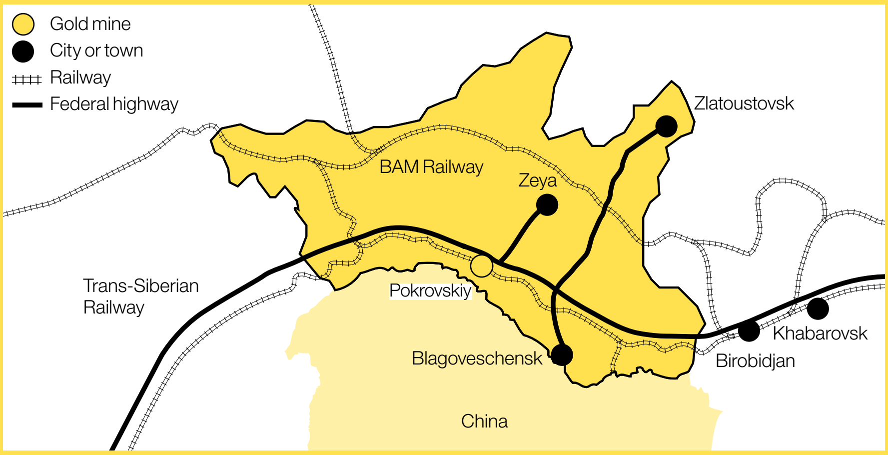
Asset development
Development of POX Hub put on hold; essential care and maintenance work conducted during 2014.

Operational efficiencies
c.64.2koz of gold produced in 2014 (2013: 91.2koz) at a total cash cost of US$885oz (2013: US$1,180/oz).

Operating responsibly and safely
LTIFR of 2.15 per million man hours worked recorded.

Location and infrastructure

Pokrovskiy is located in the Amur region of the Russian Far East. Pokrovskiy has well developed infrastructure including: an electricity supply, water supply, an on-site heating plant, road network, accommodation and related leisure facilities, an office block and an on-site laboratory. The mine is approximately 10km from the Trans-Siberian railway and all-weather roads connect the mine to local towns and federal highways. Burinda is a gold deposit situated within the Taldan licence area c.115km north-west (or c.150km by road) from Pokrovskiy.



Introduction
Pokrovskiy is a hard-rock, open-pit gold mine.

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

Pokrovskiy remains one of the Group's key assets. To date, the mine has produced approximately 1.9Moz of gold since commissioning in 1999. Consequently, the Pokrovka-1 deposit is almost depleted. To prolong the mine life, mining has been gradually shifting to satellite deposits.

As at 30 June 2014, total Mineral Resources for the Pokrovskiy project were 1.3Moz, of which 0.39Moz were Ore Reserves.

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

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

Several satellite deposits have been identified as a result of the extensive exploration work carried out by the Group, which has extended the mine life.

Burinda is a gold deposit situated within the Taldan licence area c.115km north-west (or c.150km by road) from Pokrovskiy. The ore bodies are elongated in the N-S and NE-SW directions, hosted by a surrounding zone of metasomatism and characterised by pinch-and-swell structures. Their lateral extent ranges from a few tens of metres to 1,000m (Tsentralnoye ore body), and thickness from a few metres to 18m (Yuzhnoye ore body).

Reserves and Resources (as at 31 December 2014) (WAI, April 2015 in Accordance with JORC Code 2012)

	Non-refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Reserves	9,389	1.30	0.39	–	–	–	9,389	1.30	0.39
Measured and *Indicated* Resources	37,059	0.90	1.07	–	–	–	37,059	0.90	1.07
Inferred Resources	6,706	1.04	0.23	–	–	–	6,706	1.04	0.23

Mining and processing

Mining at Pokrovskiy is entirely open pit.

Ore is processed on site: higher-grade ore is processed in a 2.1Mtpa RIP plant and lower-grade ore is processed using a 0.8Mtpa heap-leaching facility. The RIP plant is designed to operate 24 hours a day, 365 days of the year. By contrast, the heap-leaching facility only operates during the warmer months of the year, typically from April to November.

Performance in 2014

In 2014, Pokrovskiy, together with its satellite operation at Burinda, produced approximately 64,200oz, equating to approximately 10% of the Group's total gold production.

During Q1 2014, mining was concentrated on the bottom of the main pit at Pokrovka 1 and in the Pokrovka 2 pit. The current phase of the main pit was completed in March 2014 following which mining equipment was moved to the upper benches of the Zeyskoye zone on the north-west flank of the main pit to commence a pit expansion.

During the second half of 2014, the extension to the north-western flank continued together with a small extension to the Pokrovka 3 pit which was completed in September.

Work at the Burinda satellite pit continued throughout the year. Initially, the ore body in the Central 1 zone was opened and this was followed, in Q2, with the opening of the Central 2a, Central 2b and Zone 5 ore bodies. The high grade ore mined at Burinda was delivered to the Pokrovka plant for blending and processing.

The Pokrovskiy heap-leach pads operated from April to October with a recovery rate of 65.4%.

Pokrovskiy mining operations

	Units	Year ended 31 December 2014	Year ended 31 December 2013
Total material moved	m³ '000	4,665	6,779.5
Ore mined	t '000	623	1,200
Average grade	g/t	1.79	2.0
Gold content	oz '000	35.9	78.3

Pokrovskiy processing operations (incl. Burinda)

	Units	Year ended 31 December 2014	Year ended 31 December 2013
Resin-in-pulp ('RIP') plant			
Total milled	t '000	1,864	1,789
Average grade	g/t	1.15	1.8
Gold content	oz '000	68.8	104.4
Recovery rate	%	84.2	76.7
Gold recovered	oz '000	57.9	80.1
Heap leach operations			
Ore stacked	t '000	533	669
Average grade	g/t	0.6	0.7
Gold content	oz '000	9.7	14.2
Recovery rate	%	65.5	78.4
Gold recovered	oz '000	6.3	11.1
Total gold recovered	oz '000	64.2	91.2

Costs

For the period ended 31 December 2014, TCC/oz at Pokrovskiy were US$885/oz, a 25% reduction compared with the same period in 2013 (US$1,180/oz), in spite of a 36% decrease in the average grades processed through the mill and ongoing inflation of Rouble-denominated costs. This was achieved due to the success of the Group's cost-optimisation programme, a 10% increase in recovery rates and the 21% average depreciation of the Rouble against the US Dollar.

Outlook

Production from Pokrovskiy in 2015 is projected to be in the range of c.60,000oz, constituting approximately 9% of the Group's total production for the year.

The life of the current mining operations at Pokrovskiy envisaged in the Group's long-term production plan is approximately 5 years. After that, the existing facilities at Pokrovskiy will be integrated into the POX Hub for processing refractory gold-bearing concentrate. The anticipated operational life of the POX Hub is currently estimated to be in excess of 10 years commencing in 2019. This project is currently on hold.

Turn to page 52 for more on exploration at Pokrovskiy.
Turn to page 53 for more on the POX Hub.

Notes to the above Ore Reserves and Mineral Resources table:

- *a cut-off grade 0.3 g/t has been applied;*
- *Mineral Resources are constrained by a US$1,500/oz conceptual pit shell;*
- *Ore Reserves are limited by a mine design based on an optimal pit shell at US$1,250/oz gold price;*
- *Mineral Resources are inclusive of Ore Reserves;*
- *Figures may not add up due to rounding.*

Malomir

Key facts

Deposit type
Hard-rock deposits consisting of non-refractory and refractory mineralisation.

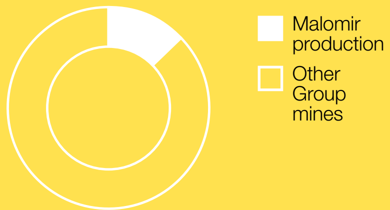
Mining
Open pit.

Processing
On-site RIP plant (currently only non-refractory ore is being processed).

Developmental history
Acquired in 2003 as a greenfield project. Today is one of the largest gold mines in Russia.

Reserves and resources
3.1Moz of Ore Reserves and 6.9Moz of Mineral Resources.

2014 gold production
c.82.2koz, equating to c.13% of the Group's total gold production for 2014.



Progress against strategic priorities

Value-adding exploration
Promising results yielded from several areas across the Malomir site, but particularly at Berezoviy, where grades of up to 61.3g/t were established by drilling, trenching and pre-stripping.

Asset development
Development of flotation plant put on hold; essential care and maintenance work conducted during 2014.

Operational efficiencies
c.82.2koz of gold produced in 2014 (2013: 115.52koz) at a total cash cost of US$1,031/oz (2013: US$1,027/oz).

Operating responsibly and safely
LTIFR of 5.85 per million man hours worked recorded (including 2 fatalities).

Location and infrastructure

Malomir is located in the north-east of the Amur region in the Russian Far East. All-weather roads connect Malomir to Fevralsk, a town which lies on the Baikal-Amur railway, and to the Pokrovskiy mine, which lies approximately 670km away. Malomir benefits from a full suite of mining services, including an on-site heating plant, an electricity supply, water supply, on-site accommodation, offices and ancillary facilities and a test laboratory.

Introduction
Malomir is a hard-rock, open-pit gold mine. Malomir is one of the largest gold mines in Russia in terms of its JORC Reserves and Resources. As at 31 December 2014, Mineral Resources stood at 6.5Moz of which 2.91Moz were Ore Reserves. The Malomir project area is still being actively explored and Group geologists have identified areas which have the potential to add to the mine's reserve base.

The Malomir project area covers 821.3km^2.

The first licence for the Malomir project was acquired by the Group in 2003. Then a greenfield site, Malomir was subsequently explored, developed and built utilising the Group's in-house expertise.

Malomir has produced approximately 426,000oz of gold since commissioning in mid-2010.

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

In addition to the Malomir deposit, exploration undertaken by the Group has confirmed the existence of two further major deposits at Malomir: Ozhidaemoye and Quartzitovoye. Subsequently, Group exploration confirmed the smaller Magnetitovoe zone as well as a number of promising exploration targets. The Central Malomir and Ozhidaemoye deposits contain significant reserves of refractory ore. Quartzitovoye and Magnetitovoe, however, consist of high-grade, non-refractory ore reserves.

Mining and processing
Mining at Malomir is entirely open pit.

The presence of both significant refractory and non-refractory reserves led the Group to embark on a two-stage development plan for Malomir. The first stage, the processing of the mine's non-refractory material in an on-site RIP plant, is currently in progress. The second stage, the processing of the mine's refractory ores, is planned for the medium to long-term.

Reserves and Resources (as at 31 December 2014) (WAI, April 2015 in Accordance with JORC Code 2012)

	Non-refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Reserves	10,261	1.01	0.33	82,047	1.04	2.73	92,308	1.03	3.07
Measured and *Indicated* Resources	16,260	0.90	0.47	126,385	0.92	3.72	142,645	0.91	4.19
Inferred Resources	8,378	0.79	0.21	109,246	0.70	2.47	117,624	0.71	2.69

This stage envisages an on-site flotation plant converting refractory reserves into higher-grade flotation concentrate which would then be trucked to Pokrovskiy for processing in the POX Hub, once completed. In line with this plan, currently, only non-refractory ore is being processed at Malomir. The flotation plant at Malomir is 90% complete. However, following the strategic development plan adopted in 2013, work has been temporarily suspended in favour of processing only the non-refractory ore at the mine in the short-term.

Performance in 2014

In 2014 Malomir produced approximately 82,200oz (compared to 115,520oz in 2013) equating to approximately 13% of the Group's total gold production for the year.

In H1 2014, the Quartzitovoye 1 pit was completed. Mining continued at the Quartzitovoye 2 pit and three prospective ore zones were opened in the Magnetitovoye pit. In September 2014, the Berezoviy satellite pit was opened and bulk sampling commenced.

The majority of the ore processed at Malomir during the year was extracted from the Quartzitovoye 2 pit.

Costs

2014 total cash costs/oz for Malomir were US$1,031/oz in line with the previous year (2013: US$1,027/oz), in spite of a 24% decrease in processed grades and ongoing inflation of Rouble-denominated costs due to the cost-optimisation programme and a 21% average depreciation of the Rouble against the US Dollar. Cash costs at Malomir are affected by the scattered positioning of multiple deposits and high stripping coefficients.

Malomir mining operations

	Units	Year ended 31 December 2014	Year ended 31 December 2013
Total material moved	m^3 '000	7,433	13,667
Ore mined	t '000	2,164	2,694
Average grade	g/t	1.32	1.8
Gold content	oz '000	92.2	158.7

Malomir processing operations

	Units	Year ended 31 December 2014	Year ended 31 December 2013
Resin-in-pulp ('RIP') plant			
Total milled	t '000	2,594	2,698
Average grade	g/t	1.36	1.8
Gold content	oz '000	113.8	159.2
Recovery rate	%	72.2	72.6
Gold recovered	oz '000	82.2	115.5
Total gold recovered	oz '000	82.2	115.5

Outlook

It is expected that Malomir will produce c.90,000oz in 2015, equating to approximately 13% of the Group's total production for the year.

The life of mine currently envisaged in the Group's long-term production plan is in excess of 15 years. This includes production from non-refractory reserves until 2018, switching to refractory processing from 2019 onwards.

Turn to page 51 for more on exploration at Malomir.
Turn to page 53 for more on the POX Hub.

Notes to the above Ore Reserves and Mineral Resources table:

- *a cut-off grade has been applied of 0.3 g/t for non-refractory and 0.4 g/t for refractory;*
- *Mineral Resources are constrained by a US$1,500/oz conceptual pit shell;*
- *Ore Reserves are limited by a mine design based on an optimal pit shell at US$1,250/oz gold price;*
- *Mineral Resources are inclusive of Ore Reserves;*
- *Figures may not add up due to rounding.*

Albyn

Key facts

Deposit type
Hard-rock deposits consisting of solely non-refractory mineralisation.

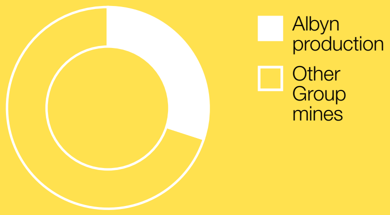
Mining
Open pit.

Processing
On-site RIP plant.

Developmental history
Also acquired as a greenfield project and explored, developed and commissioned utilising in-house expertise.

Reserves and resources
1.4Moz of Ore Reserves and 4.6Moz of Mineral Resources.

2014 gold production
c.186.0koz, equating to c.30% of the Group's total gold production for 2014.



Progress against strategic priorities

Value-adding exploration
Significant exploration results obtained from the large Elginskoye and Afanasevskaya licence areas, which lie adjacent to the main Albyn site.

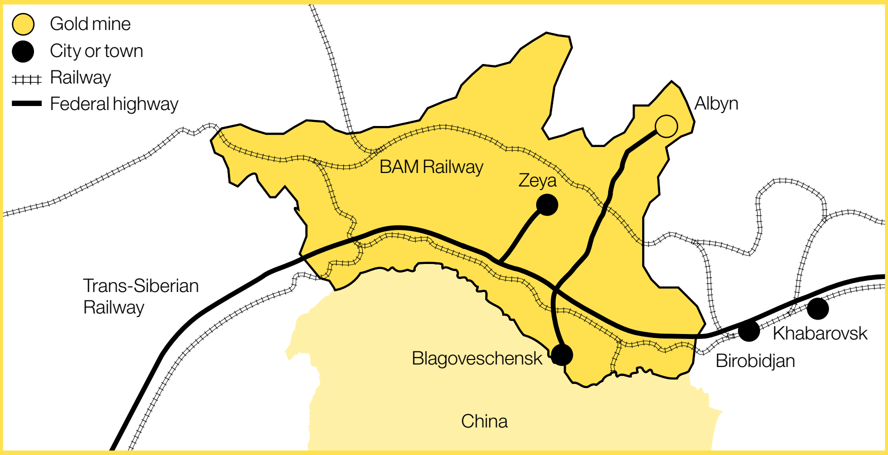
Asset development
Group technical experts continued to evaluate mining plans for Albyn in line with increases in resources.

Operational efficiencies
c.186.0koz of gold produced in 2014 (2013: 134.8koz) at a total cash cost of US$830/oz (2013: US$1,006/oz).

Operating responsibly and safely
Lost time injury frequency rate of 2.30 per million man hours worked recorded.

Location and infrastructure

Albyn is located in the Selemdja district in the north-east of the Amur region, an area of previously- extensive alluvial mining. As a result of previous mining activities near the mining site, the Group inherited substantial mining infrastructure when it acquired the Albyn licence, including access roads and a 35kv power line, which allowed the Group to realise capital cost savings. The deposit is located approximately 150km from Malomir and approximately 2km from the nearest village, Zlatoustovsk, which has an all-year-round road connecting it to the BAM railway. As a working mine, infrastructure at Albyn includes an on-site heating plant, an electricity supply, water supply, on-site accommodation, offices and ancillary facilities.



Introduction
Albyn is the newest of the Group's mines. The site was acquired in 2005 and subsequently explored developed and built utilising the Group's in-house expertise. An on-site RIP plant was commissioned in the fourth quarter of 2011 which has since produced approximately 411,000oz of gold between commissioning and 31 December 2014.

The main Albyn licence covers an area of 40km^2. However, three additional licences, namely Kharginskoye, Elginskoye and Afanasievskaya, were acquired close, or adjacent to, the Albyn site, and are therefore considered part of the project. These licence areas give the Albyn project a combined total area of more than 1,160km^2, of which large parts remain under-explored.

Geology
The mineralisation seen at Albyn comprises a series of gently dipping sub-parallel metasomatic zones that show variable thickness and grade, extending for approximately 4.5km in strike length which appears to be open in down dip direction. It can be broadly divided into three, comprising of Central, Western and Eastern zones. In the Central Zone, the mineralised package can have a thickness of up to 110m.

Metallurgical tests, together with the approximately three years of industrial scale processing, have shown with confidence that the mineralisation at Albyn is entirely non-refractory, thus the entire mine's current Ore Reserves are potentially suitable for processing in the mine's operational RIP plant.

Ore at Albyn contains free milling gold, giving high recovery rates of 90-95% using the conventional direct cyanidation method.

In addition to the Albyn mine itself, the Group has confirmed two satellites deposits Elginskoye (within the Elginskoye licence area) and Unglichikanskoe (within the Afanasievskaya licence area) and has established substantial JORC mineral resources and Ore Reserves within these areas. Exploration results obtained from other exploration targets within the Albyn project to date have been promising. However, not all results have yet been fully reflected in Albyn's Mineral Resource statement. Consequently, Group geologists consider the mine to be highly prospective for further, significant gold discoveries.

Reserves and Resources (as at 31 December 2014) (WAI, April 2015 in Accordance with JORC Code 2012)

	Non-refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Reserves	31,258	1.37	1.38	–	–	–	31,258	1.37	1.38
Measured and *Indicated* Resources	48,961	1.28	2.01	–	–	–	48,961	1.28	2.01
Inferred Resources	76,263	1.06	2.61	–	–	–	76,263	1.06	2.61

The Elginskoe deposit is located c.25km south from the Albyn plant. Gold mineralisation is concentrated within a series of flat dipping mineralised zones located close to the surface and is potentially suitable for low cost open-pit mining. Mineralisation has been proven to a strike length of more than c.5km and remains open in south-east and south-west directions. Metallurgical tests show that the gold is predominantly non-refractory however some cyanide recoveries from some areas are low. Group exploration and resource estimates only cover non-refractory mineralisation which should be suitable for recovery at the existing RIP plant.

Unglichikanskoye, is a high-grade deposit c.15km north-west of the Albyn RIP plant. Unglichikanskoye is comprised of a series of parallel, high-grade steep dipping relatively narrow veins and zones with grades in selected samples up to 3,430.1g/t. Metallurgical tests demonstrate that Unglichikanskoye's high-grade mineralisation tends to respond well to cyanide leaching; therefore, Group geologists believe that it should be suitable for processing through the nearby Albyn RIP plant. The lower grade mineralisation is not always suitable for cyanidation and may require more sophisticated processing.

Mining and processing

Mining at Albyn is entirely open pit. Ore is processed in a 4.0-4.2Mtpa RIP plant.

Performance in 2014

In 2014, Albyn produced approximately 186,000oz, equating to approximately 30% of the Group's total gold production for the year. This was an increase of 38% compared to 2013 production of 134.8koz.

Albyn is now the Group's largest mine in terms of total mass moved, as it mined almost 30 million cubic metres in 2014.

Albyn mining operations

	Units	Year ended 31 December 2014	Year ended 31 December 2013
Total material moved	m^3 '000	29,821	23,865
Ore mined	t '000	4,510	4,009
Average grade	g/t	1.29	1.1
Gold content	oz '000	187.4	138.4

Albyn processing operations

	Units	Year ended 31 December 2014	Year ended 31 December 2013
Resin-in-pulp ('RIP') plant			
Total milled	t '000	4,609	4,175
Average grade	g/t	1.33	1.1
Gold content	oz '000	197.6	145.0
Recovery rate	%	94.1	93.0
Gold recovered	oz '000	186.0	134.8
Total gold recovered	oz '000	186.0	134.8

In H1 2014, ore mining was concentrated on the eastern side of the Central pit while overburden operations worked on the western part of the Central pit. During H2, these operations were reversed with the majority of the ore coming from the western side of the Central pit. The western part of the pit typically produces higher grades than the eastern side.

In Q2 2014, the Unglichikan satellite pit commenced producing small amounts of high-grade ore, in the form of bulk samples, which were delivered to the Albyn plant for metallurgical testing.

The process plant recovery remained high throughout the year and averaged 94.1%.

Costs

Total cash costs at Albyn for the year were US$830/oz, an approximate decrease of 18% compared with 2013 (US$1,006/oz). This was achieved in spite of a 10% increase in the stripping ratio compared with the previous year and ongoing inflation of Rouble-denominated costs due to a combination of several factors: a 21% increase in grades processed through the mill, a slight improvement in recovery rates, the cost-optimisation programme and Rouble devaluation.

Outlook

In 2015, Albyn is projected to produce 190,000-200,000oz of gold equating to approximately 28% of total production for the year.

In 2015, the Group plans to mine and process high-grade ore from the Unglichikan satellite pit.

The life of mine currently envisaged in the Group's long-term production plan is approximately 8 years.

Turn to page 51 for more on exploration at Albyn.

Notes to the above Ore Reserves and Mineral Resources table:

- *a cut-off grade 0.3 g/t has been applied;*
- *Mineral Resources are constrained by a US$1,500/oz conceptual pit shell;*
- *Ore Reserves are limited by a mine design based on an optimal pit shell at US$1,250/oz gold price;*
- *Mineral Resources are inclusive of Ore Reserves;*
- *Figures may not add up due to rounding.*

Exploration Report, Reserves and Resources

In line with the approach adopted in previous years, the Group reports its hard-rock Mineral Resources and Ore Reserves in accordance with JORC Code. The assets are subdivided into 'core' and 'non-core' projects. Core projects are classified as the Group's four operational mines, namely: Pokrovskiy, Pioneer, Malomir, Albyn and all their satellites which are scheduled for production through the mines' existing processing facilities. Mineral Resource and Ore Reserve estimates for these assets have been audited by WAI in accordance with JORC Code (2012).

The Group considers its 'non-core' projects to be those assets which have good prospects, but are not located near current processing facilities. These include: Tokur (Amur Region), Visokoe (Krasnoyarsk) and Yamal assets (the Petropavlovskoe-Nogodnee Monto deposits). Mineral Resources and, where appropriate, Ore Reserves for these projects have not changed since 2011. These estimates has not been updated and therefore reported in accordance with JORC Code (2004), which was the current version of the Code at the time of the estimates. The estimates where reviewed and signed off by WAI in March 2011 (Yamal, Tokur) and February 2012 (Visokoe).

The tables below provide a summary of Mineral Resources and Ore Reserves.

Group's Total Ore Reserve (as at 31 December 2014)
(in accordance with the JORC Code)

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz Au)
Total Ore Reserves	*Proven*	39,621	1.05	1.33
	Probable	237,824	1.03	7.83
	Total *(Proven+Probable)*	277,445	1.03	9.17
Non-Refractory Ore Reserves	*Proven*	19,359	0.92	0.57
	Probable	129,475	1.06	4.40
	Total *(Proven+Probable)*	148,834	1.04	4.97
Refractory Ore Reserves	*Proven*	20,262	1.17	0.76
	Probable	108,349	0.99	3.43
	Total *(Proven+Probable)*	128,611	1.01	4.20

(1) Group Ore Reserves statements are prepared by WAI; Pokrovskiy, Pioneer, Malomir and Albyn reserves are prepared in April 2015 in accordance with JORC Code 2012; Visokoe Ore Reserves prepared in January 2012 in accordance with JORC Code 2004; Tokur Reserves are prepared in 2011 in accordance with JORC Code 2004.

(2) All Group Ore Reserves are for open pit extraction and are reported within pit shells using US$1,250/oz gold price assumption for Pioneer, Pokrovskiy, Malomir and Albyn, US$1,200 for Visokoe and a US$1,000 for Tokur.

(3) Reserve cut-off grade for reporting varies from 0.3 to 0.4g/t Au, depending on the asset and processing method.

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

A summary of gold Ore Reserves for the Group's Core Projects (which includes Pioneer, Pokrovskiy, Malomir, Albyn and Burinda) is provided in a separate table below. These Reserves are included in the table above and are not additional.

Ore Reserve at the Group's Core Assets in the Amur region (as at 31 December 2014)
(WAI April 2015, in accordance with JORC Code 2012)

	Category	Tonnage (Kt)	Grade (g/t Au)	Gold (Moz Au)
Total Ore Reserves	*Proven*	37,593	1.03	1.24
	Probable	201,827	1.00	6.51
	Total *(Proven+Probable)*	239,420	1.01	7.75
Non-Refractory Ore Reserves	*Proven*	17,331	0.85	0.48
	Probable	93,478	1.02	3.07
	Total *(Proven+Probable)*	110,809	1.00	3.55
Refractory Ore Reserves	*Proven*	20,262	1.17	0.76
	Probable	108,349	0.99	3.43
	Total *(Proven+Probable)*	128,611	1.01	4.20

Note: Figures may not add up due to rounding.

Group total Mineral Resources for Core and Non-Core Projects is presented in the table below.

Mineral Resources (as at 31 December 2014)
(in accordance with the JORC Code)

	Category	Tonnage (Kt)	Grade (g/t Au)	Contained Metal (Moz Au)
Total Mineral Resources	*Measured*	69,802	1.04	2.34
	Indicated	431,300	0.90	12.54
	Measured+Indicated	501,102	0.92	14.88
	Inferred	314,757	0.83	8.40
Non-refractory Mineral Resources	*Measured*	42,794	1.05	1.44
	Indicated	232,004	0.98	7.28
	Measured+Indicated	274,798	0.99	8.73
	Inferred	167,813	0.97	5.23
Refractory Mineral Resources	*Measured*	27,008	1.04	0.90
	Indicated	199,296	0.82	5.26
	Measured+Indicated	226,304	0.85	6.15
	Inferred	146,944	0.67	3.17

(1) Mineral Resources include Ore Reserves.

(2) Mineral Resources for Pokrovskiy, Pioneer, Malomir and Albyn are audited by WAI in accordance with JORC Code 2012 in April 2012; Mineral Resources for Visokoe, Tokur and Yamal are reviewed by WAI in 2011 in accordance with JORC Code 2004.

(2) The cut-off grade varies from 0.30 to 0.4g/t depending on the type of mineralisation and proposed processing method.

(3) Mineral Resource for the Core Projects including Pokrovskiy, Pioneer, Malomir and Albyn are constrained by conceptual open-pit shells at a long-term gold price assumption of US$1,500/oz.

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

A summary of gold Mineral Resources for the Group's Core Projects (which includes Pioneer, Pokrovskiy, Malomir, Albyn and Burinda) is provided in a separate table below. These Resources are included in the table above and are not additional.

Mineral Resources at Group Core Assets in the Amur region (as at 31 December 2014)
(WAI April 2015, in accordance with the JORC Code 2012)

	Category	Tonnage (Kt)	Grade (g/t Au)	Contained Metal (Moz Au)
Total Mineral Resources	*Measured*	48,268	0.94	1.46
	Indicated	364,069	0.87	10.13
	Measured+Indicated	412,337	0.87	11.59
	Inferred	263,147	0.79	6.71
Non-refractory Mineral Resources	*Measured*	21,260	0.82	0.56
	Indicated	164,773	0.92	4.88
	Measured+Indicated	186,033	0.91	5.44
	Inferred	116,203	0.95	3.54
Refractory Mineral Resources	*Measured*	27,008	1.03	0.90
	Indicated	199,296	0.82	5.26
	Measured+Indicated	226,305	0.85	6.15
	Inferred	146,944	0.67	3.17

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

Pioneer

During 2014, exploration at Pioneer continued on the Alexandra and Shirokaya zones, which are situated north of the active Pioneer pits, as well as at Andreevskaya and Vostochnaya.

At Andreevskaya, a high-grade, non-refractory zone extensively mined by the Group in previous years, further drilling discovered extensions of the high-grade mineralisation. This mineralisation is situated between 80m and 150m from the surface and is expected to be suitable for open-pit extraction and processing at the Pioneer RIP plant. The best intersections in this area include: 2.9m at 60.62g/t (C-5414), 7.0m at 91.7g/t (C-5400), and 6.5m at 34.3g/t (C-5410). These results added c.110koz of high-grade JORC Mineral Resource at an average grade of c.35g/t.

At the Vostochnaya zone, an area which is situated 1.5km from the Pioneer processing plant, a 280m-long extension of mostly non-refractory mineralisation was established. The best intersections from this area include: 14.2m at 1.44g/t (C-5370), 6.8m at 28g/t (C-5199) and 8.0m at 1.82g/t (C-5404). These results have enabled Vostochnaya JORC Mineral Resources to increase by c.333,000oz to c.734,000oz. This increase in Mineral Resources resulted in a new, larger pit design and a c.353,000oz increase in Vostochnaya Ore Reserves. All new Reserves are classified as suitable for RIP or heap leach processing.

These new discoveries were incorporated into the Group's latest JORC Mineral Resource and Ore Reserve update estimate.

Pre-stripping and in-fill drilling were conducted at Shirokaya and the eastern side of Alexandra in order to upgrade the JORC Inferred Mineral Resources into the Measured and Indicated Resource categories. This resulted in an increase of c.547,000oz of contained gold in the Measured and Indicated Resources and a subsequent c.256,000oz increase in Probable Ore Reserves, of which c.227,000oz are non-refractory gold.

A new zone of mineralisation, Brekchievaya, located c.1.5km north-east from Alexandra, was modelled and included in the JORC resource statement. A c.350m-long section of the strike length was modelled, resulting in a c.20,000oz increase in non-refractory resources in the Inferred Resource category. The zone remains open in both strike directions. Further drilling is being undertaken and Group geologists anticipate more substantial gold resource discoveries in this area.

Four drill profiles were completed further to the north-east of the Alexandra zone, next to known alluvial gold deposits. Potentially-economical gold mineralisation was intersected in profile 920/1, with three significant intersections: 5m at 2.35g/t, 2.6m at 1.19g/t and 2.1m at 8.29g/t. The strike length and morphology of the mineralisation has yet to be established through further exploration, but the results are considered to be encouraging.

The area in which Shirokaya and Alexandra are situated is considered to be prospective for the discovery of further gold-bearing zones, including zones of high-grade mineralisation. As such, a new zone of mineralisation, Brekchievaya, was discovered and included into the resource statement during 2014.

Overall, total non-refractory Mineral Resources at Pioneer increased by c.580,000oz, despite depletion of c.330,000oz, giving a gross increase of non-refractory resources of c.910,000oz. The increase is mainly attributable to successful exploration at Vostochnaya, Alexandra and Andreevskaya. Refractory resources decreased by c.330,000oz, primarily due to application of $1,500/oz conceptual pit constrains.

Pioneer total Ore Reserves increased by c.770,000oz, giving a gross increase (including depletion) of c.1.1Moz. Non-refractory reserves grew by 530,000oz or c.860,000oz taking into account depletion. The increase is at Vostochnaya, Alexandra and Andreevskaya.

Turn to page 40 for more on the Pioneer mine and page 53 for more on the underground mine proposal.

Malomir

The key areas of exploration at Malomir include Magnetitovoye, Berezoviy and Pogranichniy.

In 2014, at Magnetitovoye, an area near the Malomir processing plant, drilling extended known mineralisation to deeper levels. As a result of this work, Magnetitovoye Ore Reserves increased by c.40,000oz, offsetting mine depletion.

Exploration at a recently-identified target, Berezoviy, located approximately 5-10km west of Malomir, yielded promising results, with grades of up to 61.3g/t Au established by drilling, trenching and pre-stripping. The best intersections include: 19.5m at 1.69g/t (drill hole 122-7), 4.6m at 5.32g/t (drill hole 121-8), 8.4m at 12.87g/t (pre-strip), 8.0m at 13.63g/t. The total length of the zone could be up to 1km.

A formal Mineral Resource and Ore Reserves estimates for the most explored part of Berezoviy, the Osennee zone, were prepared in Q1 2015, adding c.17,000oz to non-refractory resources and reserves.

A further three promising zones of gold mineralisation were discovered within the Pogranichniy licence area during 2014.

Malomir total Mineral Resources decreased by c.2.8Moz due to application of $1,500/oz conceptual open pit constrain in accordance with JORC Code 2012 as well as the result of depletion.

Malomir Ore Reserves decreased by c. 0.99Moz due to depletion of c.114,000oz of gold as well as due to use more conservative modifying factors for the refractory reserves, in line with the JORC Code 2012.

Turn to page 44 for more on the Malomir mine.

Albyn

Exploration in 2014 was conducted on two principal areas, Elginskoye and the Afanasevskaya, licence areas which lie adjacent to the currently-producing Albyn licence.

Elginskoye

In 2014, further progress was made on the Elginskoye licence area which covers several targets: the Elginskoye deposit itself (the principal target) and the Grozovoye, Ulgen and Leninskoye prospects.

Drilling at 160m x 80m drill spacing defined a large mineral resource o c.2.27Moz at an average grade of 1.03g/t. Mineralisation at Elginskoye remains open in the south-east and south-west directions, offering further exploration potential. Other targets within the Elginskoye licence area (Ulgen, Grozovoye and Leninskoye) are considered prospective, but low priority, compared with the Elginskoye deposit and the targets within the adjacent Afanasevskaya licence area.

A new zone of mineralisation with an expected strike length of c.1km was discovered by two trenches in the Leninskaya-Severnaya area during the first six months of 2014. Significant trench intersections include: 2m at 3.83g/t, 8m at 3.4g/t and 3m at 2.5g/t.

No material exploration was conducted on Ulgen and Grozovoye during 2014.

Afanasevskaya licence area (including Unglichikanskoye)

In 2013, work commenced at Afanasevskaya, a 688km2 licence area acquired in 2012. This area lies to the west and north of the Albyn licence area and borders the Elginskoye licence area at the south-west.

The majority of the exploration work in 2014 was focused on Unglichikanskoye, a high-grade deposit situated c.15km north-west of the Albyn RIP plant.

A substantial amount of drilling and trenching was completed in 2013 and 2014 covering c.3km of the known strike length of the Unglichikan mineralisation. This work enabled the preparation of JORC Mineral Resource and JORC Ore Reserve estimates. The JORC Resources are open towards the north-east as well as in a down-dip direction; they therefore offer the opportunity to expand the mineral resource base.

The Group's geologists are of the opinion that in addition to Unglichikanskoye, the Afanasevskaya licence area covers several further highly promising prospects where only limited work has been completed so far. In particular, an area situated 3-6km south east of Unglichikanskoye is known as a source of placers and is considered by the Group's geologists as prospective for further hard-rock gold discoveries. It is planned that exploration here, as well at Unglichikanskoye, will continue.

Albyn Mineral Resources increased by c.511,000oz, despite depletion of c.200,000oz, giving a gross increase of c.710,000oz. The increase is mainly attributable to the evaluation of new Ore Reserves at the Albyn satellite deposits, Unglichikan and Elginskoye.

Albyn Ore Reserves increased by c.220,000oz giving c.420,000oz of gross increase taking into account mine depletion. The increase is at the Unglichikanskoe and Elginskoye satellite deposits.

Turn to page 46 for more on the Albyn mine.

Pokrovskiy

Pokrovskiy mineral resources decreased by c.490,000oz as a result of depletion and re-evaluation in accordance with JORC Code 2012.

Ore Reserves decreased by only c.45,000oz, despite mine depletion of c.80,000oz.

Turn to page 42 for more on the Pokrovskiy mine.

Future Development

Underground mine

Several ore columns at Pioneer are high-grade and remain open at depth, offering the potential for significant resource and reserve expansion. Selected intersections below or right at the bottom of the current open pit design include 4.4m at 70g/t (Andreevskaya, C-5570), 2.9m at 11.3g/t (Andreevskaya C-515), 3.2m at 11.3g/t (NE Bakhmut, C-1301), 1.5 at 47.8g/t (Promezhutochnaya C-5194), 15.7m at 6.97g/t (Bakhmut C-5117), 5.1m at 186.2g/t (Yuzhnaya C-5196T). To date, exploration at Pioneer was targeting exclusively open pit resources and reserves and these high grade intersections has not been followed up down dip by deeper drilling.

At a depth of c.200-600m from the surface, a preliminary estimate by Group geologists has indicated that the site has the potential of between 3Moz and 6Moz of gold resources at an average grade of 5g/t to 8g/t.

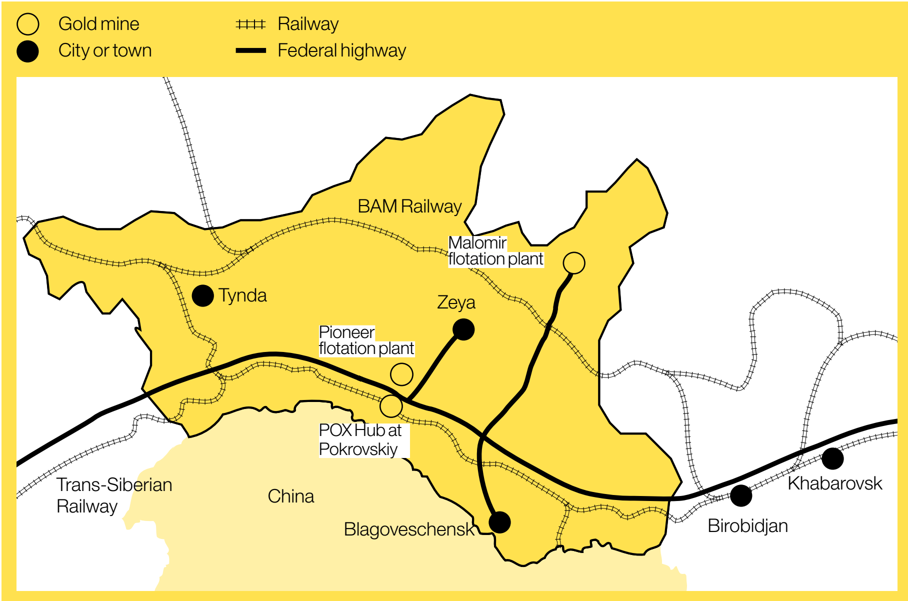
Further 1 to 2Moz of resources may exist between depths of 600 to 800m below the surface, which is feasible depth for conventional underground operation.

A preliminary economic assessment, completed internally by the Group specialists, has indicated an underground mine at Pioneer with a reserve grade of 7g/t potentially could have a high economical return at a gold price above US$800/oz. The estimate provides a sufficient level of confidence that it will be classified as an Exploration Target as defined by the JORC Code. The estimate is based on the assumption that the high-grade mineralisation known within the open pits and from the exploration within a 0-200m depth-range extends down to 600m, which should be considered as a comfortable depth for an underground mining operation. The Group is planning an exploration programme in order to upgrade this estimate to JORC Mineral Resources and, subsequently, into Ore Reserves. Should this exploration be successful the first commercial underground production could be expected to commence after 2017.

POX Hub

Concept

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



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

It is currently expected that once commissioned, the POX Hub would be the largest of its kind in Russia, with an estimated capacity to process 400,000t of flotation concentrate a year. The Group also estimates that it would also be the most technologically-advanced POX facility for processing gold in Russia, able to extract gold from a wide range of refractory ores. The Directors believe that this would support long-term, sustainable gold production from the Malomir and Pioneer mines. Given the scale of the POX Hub and the abundance of undeveloped refractory gold mineralisation in the Russian Far East, the POX Hub also would, potentially, open up a new dimension for the Group's future growth.

The Pokrovskiy POX plant comprises of four autoclaves. Each autoclave is 15m long and 4m tall, weighs 116.5 tonnes and has an effective volume of 66m3. The provision of four separate autoclave vessels provides a large degree of operational flexibility, as they enable concentrates from different sources, bearing different properties, to be separately and simultaneously processed without compromising on the gold recovery or the productivity of the plant.

Work conducted in 2014

In order to conserve capital expenditure following the decline in the gold price in Q2 2013, the Group decided to slow down the pace of development of the POX Hub and in December 2013, work on the POX Hub was put on hold. Consequently, work during 2014 was conducted solely to fulfil existing contracts and undertake essential maintenance work.

A detailed action plan was prepared to preserve equipment at completed sections of the plant and to keep facilities on standby so that full scale-development can be recommenced in the future, according to availability of finance and prevailing market conditions. The capital expenditure required in order to finalise the construction of the POX plant is currently estimated at US$140 million.

Specific work carried out in 2014 included: acid treatment of autoclave and flash tank inner lining, installation of agitators, the construction of the water cooling system, electrical works in the autoclave building, work on the air separation columns, work on the framework and cladding to the neutralisation building, completion of the shall of the filtration building, the addition of the framework for the electrical reticulation system was to the autoclave building and work on extending the air separation columns at the oxygen plant.

Other Projects

Alluvial operations

Through its subsidiary, Koboldo, the Group holds licences to mine alluvial gold and conduct exploration work for alluvial gold for a number of small alluvial operations in the Amur region of Russia. Alluvial mining, the washing of gold-bearing gravels using a sluice or dredge, is seasonal, with operations normally running from April to November due to weather conditions, contributing to the typical skew of the Group's gold production to the second half of the year.

Conditional Sale of Non-Core Assets

Due to the high cost and the relatively small contribution to the total Group production, which in 2014 was only c.5% of total Group's production, Koboldo assets are considered to be 'non-core' by the Directors. On 20 April 2015, the Company announced that its subsidiary, PHM Cyprus, had entered into a conditional share purchase agreement with Global-Polymetall LLC relating to the transfer of 95.7% of the issued shares in Koboldo ('SPA'). The total cash consideration for the transaction is RUB 942 million (c.US 18.7 million when converted at the official exchange rate of RUB 50.5033 : US$ 1, as set by the Central Bank of the Russian Federation on 16 April 2015) plus reimbursement of VAT for the fourth quarter 2014, payable within prescribed timeframes from the date of entering into the SPA.

Reserves and resources

Due to the seasonal nature of the Group's alluvial operations, the Group updates its alluvial Mineral Resource and Mineral Reserve statements annually, each January. The Group reports its alluvial Mineral Resources and Mineral Reserves in accordance with the Russian Code for the Public Reporting of Exploration Results, Mineral Resources and Mineral Reserves (the NAEN Code). The NAEN Code is recognised by ESMA. The NAEN Code shares the same template with the JORC Code: Mineral Reserves reported in accordance with the NAEN Code are inclusive of mining dilution and mining losses.

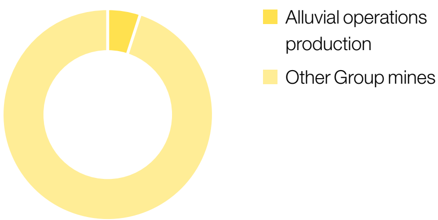
The NAEN Code allows conversion between the Russian GKZ C_1, C_2 into *Proved* and *Probable* Reserves and also conversion of C_1, C_2 and P_1 into respective *Measured*, *Indicated* and *Inferred* Resources.

Production

Although alluvial mining is less capital-intensive than hard-rock mining, following the decline in the gold price in 2013, the Group took steps to scale back production from high-cost assets with the sale of the alluvial operations held by Berelekh in the last quarter of 2013. Consequently, gold produced by the Group's alluvial operations in 2014 declined by approximately 66% to 29.1koz (2013: 84.8koz).

2014 gold production

c.29.1koz, equating to c.5% of the Group's total gold production for 2014.



Costs

Total cash costs for the Group's alluvial operations were US$982/oz, a decrease of approximately 26% compared to 2013 (US$1,319/oz).

Outlook

Once the Koboldo Disposal has been completed, the Group will no longer hold any material alluvial assets. Consequently, the Group's 2015 production target of 680,000-700,000oz excludes production from the Group's alluvial assets.

Mineral reserve at the Group's alluvial assets as at 1 January 2015 (in accordance with the NAEN Code)

	Active			Pre-production			Total		
Category	Volume '000m³	Grade mg/m³	Metal koz	Volume '000m³	Grade mg/m³	Metal koz	Volume '000m³	Grade mg/m³	Metal koz
Dredging									
Proven	3,781	148	18	30,515	150	147	34,296	149	165
Probable	21,099	44	30	6,537	74	16	27,636	51	45
Proven + Probable	24,880	60	48	37,051	136	163	61,932	106	210
Hydraulic bulk mining									
Proven	1,245	165	7	745	301	7	1,990	216	14
Probable	4,009	78	10	4,431	103	15	8,440	91	25
Proven + Probable	5,254	99	17	5,020	128	21	10,430	115	39
Selective mining									
Proven	4,413	665	94	2,489	434	35	6,902	581	129
Probable	1,363	357	16	261	375	3	1,624	360	19
Proven + Probable	5,776	592	110	2,750	428	38	8,526	539	148
Total									
Proven	9,439	392	9	33,749	174	189	43,188	222	308
Probable	26,471	65	56	11,229	93	33	37,700	73	89
Proven + Probable	35,910	15	175	44,978	154	222	80,888	153	397

Mineral resource at the Group's alluvial assets as at 1 January 2015 (in accordance with the NAEN Code)

	Active			Pre-production or development			Total		
Category	Volume '000m³	Grade mg/m³	Metal koz	Volume '000m³	Grade mg/m³	Metal koz	Volume '000m³	Grade mg/m³	Metal koz
Dredging									
Measured	17,171	77	42	32,828	160	169	49,999	132	212
Indicated	5,861	55	10	1,620	135	7	7,481	73	17
Measured + Indicated	23,032	71	52	34,448	159	176	57,480	124	229
Inferred	–	–	–	–	–	–	–	–	–
Hydraulic bulk mining									
Measured	4,811	122	19	6,769	152	33	11,580	139	52
Indicated		–	–	150	253	1	150	253	1
Measured + Indicated	4,811	122	19	6,919	154	34	11,730	141	53
Inferred	–	–	–	–	–	–	–	–	–
Selective mining									
Measured	4,490	914	132	2,160	642	45	6,650	826	177
Indicated	500	630	10	166	578	3	666	617	13
Measured + Indicated	4,990	986	142	2,326	638	48	7,316	807	190
Inferred	1,596	1,234	63	347	637	7	1,943	1,128	70
Total									
Measured	26,472	227	193	41,757	184	247	68,229	201	440
Indicated	6,361	100	21	1,936	182	11	8,297	120	32
Measured + Indicated	32,833	202	214	43,693	184	258	76,526	192	472
Inferred	1,596	1,234	63	347	637	7	1,943	1,128	70

Visokoe

Visokoe is a significant non-refractory gold deposit which is not in production. It is located in the Yenisey Ridge area of the Krasnoyarsk region, which is home to some of Russia's largest and best-known gold deposits and has been a key area for Russian gold mining for decades. The Visokoe site itself is located approximately 50km north-west of the village of Teya and c.70km from town of Severo-Yeniseysk.

Visokoe contains c.1.2Moz of JORC gold Reserves and further c.1.3Moz of Mineral Resources. Extensive exploration and test work have indicated ore at Visokoe to be non-refractory and suitable for economic processing in an RIP plant or through heap-leaching. The Visokoe deposit has a low-strip ratio and so is well-suited to open-pit mining.

In line with the Group's plan to focus on its existing producing assets in the short-term, the Group did not allocate significant capital expenditure for this project in 2014. No material work is planned for 2015. The Group intends to review its development plans for Visokoe in the medium-term.

Mineral resources and ore reserves for Visokoe (as at 31 December 2014) (WAI, April 2015 in Accordance with JORC Code 2012)

	Non-Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven Ore Reserves	–	–	–	–	–	–	–	–	–
Probable Ore Reserves	33,802	1.13	1.22	–	–	–	33,802	1.13	1.22
Total *Proven* and *Probable* Ore Reserves	33,802	1.13	1.22	–	–	–	33,802	1.13	1.22
Measured Mineral Resources	5,623	1.37	0.25	–	–	–	5,623	1.37	0.25
Indicated Mineral Resources	38,512	1.18	1.47	–	–	–	38,512	1.18	1.47
Measured and *Indicated* Mineral Resources	44,135	1.21	1.71	–	–	–	44,135	1.21	1.71
Inferred Mineral Resources	24,200	1.00	0.78	–	–	–	24,200	1.00	0.78

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

– a cut off grade of 0.3 g/t has been applied;

– Ore Reserve limited by an optimal pit shell at US$1,200/oz gold price.

Tokur

Tokur is a hard-rock, non-refractory gold deposit located in the Amur region, approximately halfway between the Malomir and Albyn mines. The deposit benefits from developed infrastructure, including all-weather roads and a power supply. The project facilities, which include mechanical workshops, dormitories and a canteen, are in regular use both by the company employees 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.

Although Tokur was mined in the Soviet era using underground mining methods, the deposit still contains significant JORC Mineral Resources and Ore Reserves, which would be suitable for processing in an RIP plant. However, in line with the Group's plan to focus on its existing producing assets in the short-term, the Group has no plans to develop Tokur at this stage. Tokur has been fully impaired and the Group intends to review its development plans for Tokur in the medium-term.

Mineral resources and ore reserves for Tokur (as at 31 December 2014)

	Non-Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven Ore Reserves	2,028	1.47	0.10	–	–	–	2,028	1.47	0.10
Probable Ore Reserves	2,195	1.44	0.10	–	–	–	2,195	1.44	0.10
Total *Proven* and *Probable* Ore Reserves	4,223	1.45	0.20	–	–	–	4,223	1.45	0.20
Measured Mineral Resources	11,952	1.30	0.50	–	–	–	11,952	1.30	0.50
Indicated Mineral Resources	16,096	1.06	0.55	–	–	–	16,096	1.06	0.55
Measured and *Indicated* Mineral Resources	28,048	1.16	1.05	–	–	–	28,048	1.16	1.05
Inferred Mineral Resources	10,706	1.09	0.38	–	–	–	10,706	1.09	0.38

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

Yamal assets

The Group's interest in the Yamal region, an area in the north of Russia, is centred on the development of two adjacent gold ore bodies: Petropavlovskoye and Novogodnee Monto (the Yamal Assets).

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

Mineral resources for the Yamal assets (as at 31 December 2014)

	Non-Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Proven and *Probable* Ore Reserves	–	–	–	–	–	–	–	–	–
Measured Mineral Resources	3,959	1.03	0.13	–	–	–	3,959	1.03	0.13
Indicated Mineral Resources	12,623	0.97	0.40	–	–	–	12,623	0.97	0.40
Measured and *Indicated* Mineral Resources	16,582	0.99	0.53	–	–	–	16,582	0.99	0.53
Inferred Mineral Resources	16,704	1.00	0.54	–	–	–	16,704	1.00	0.54

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

Guyana assets

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

Other exploration assets

The Group has a number of exploration licences relating to other assets for which it does not have JORC-compliant Mineral Resources and Ore Reserves, or which are not located close to its four hard-rock gold mines, and so cannot be considered as part of the development for these mines.
The prospects for these assets, therefore, remain uncertain, and they are considered to be of a very low priority for the Group.

The most prospective of these assets is Nimanskaya, which is located approximately 90km south of Albyn in the Khabarovsk region of Russia. Although Nimanskaya does not have JORC-Compliant Mineral Resources, exploration conducted to date (trenching and some surface sampling) has indicated that the deposit is prospective for discovering a large mineral resource. However, due to its remote location, Nimanskaya is considered a lower priority target and no significant exploration is planned for 2015.

IRC

IRC is a producer and developer of industrial commodities and was the Group's former Non-Precious Metals Division, prior to its listing on the Stock Exchange of Hong Kong Limited (stock code 1029).

The Group currently holds majority stake in IRC.

IRC assets

IRC considers its key mining assets to be:

- **Kuranakh**, a working mine located in the Amur region, Russian Far East, producing iron-ore concentrate and ilmenite concentrate;
- **K&S**, a project which is at an advanced stage of construction and development into a working mine and is located in the Jewish Autonomous region (EAO) of the Russian Far East. Once commissioned, K&S will produce iron-ore concentrate; and
- **Garinskoye**, a project, located in the Amur region, which is at an advanced stage of exploration and which IRC has reported as having Proven and Probable Ore Reserves and Indicated and Inferred Mineral Resources.

IRC considers the following mining assets to be non-core, being assets which it currently anticipates will not contribute significantly to IRC's revenue in the short to medium-term:

- **Bolshoi Seym**, an ilmenite deposit situated north of Kuranakh which IRC has reported as having Indicated and Inferred Mineral Resources;
- **The Garinskoye flanks**, including the Orlovsko-Sokhatinskaya area, an area surrounding the Garinskoye deposit which remains at an early stage of exploration and is yet to have JORC-compliant Mineral Resources and Ore Reserves;
- **Kostenginskoye**, an area 18km south of K&S which remains at an early stage of exploration and is yet to have JORC-compliant Mineral Resources and Ore Reserves; and
- The Molybdenum Exploration Projects in the Amur region of the Russian Far East which remain at an early stage of exploration and is yet to have JORC-compliant Mineral Resources and Ore Reserves.

In addition to these assets, IRC also operates:

- **Giproruda**, a technical mining and research consultancy located in St Petersburg, Russia; and
- **SRP**, a steel slag reprocessing plant located in Shuangyashan, North-East China. SRP is a joint-venture between IRC (46% ownership) and its largest iron-ore customer in Heilongjiang in North-East China.

Operational performance in 2014

Kuranakh
In 2014, Kuranakh produced 1,010,360 tonnes of iron-ore concentrate, down 2.0% from the previous year, with a 62.5% iron (Fe) content and 178,426 tonnes of ilmenite concentrate, up 19% from the previous year, with a 48% titanium dioxide content.

K&S
Once commissioned, ramped up and working to projected full capacity, IRC anticipates Phase One K&S will have the ability to produce 3.2 million tonnes of iron-ore concentrate with a grade of 65% Fe content.

In August 2014, IRC reported that CNEEC, its main contractor for the development of K&S, had provided notification that there would be a delay to the original planned date for the commissioning of the project. IRC has advised that it has granted an extension of time to CNEEC in return for a settlement of US$19.5 million and that, under the terms of its contract with CNEEC, any further delays would trigger payments of approximately US$150,000 per day, with discussions ongoing as at 3 December 2014.
On 3 December 2014, IRC announced that the commissioning of K&S would be completed in the second quarter of 2015 and that IRC anticipated that full-scale commercial production capacity would be achieved in the third quarter of 2015.

Garinskoye
On 16 October 2014, IRC announced that, whilst IRC still intends to develop a large mining operation at Garinskoye, due to capital constraints, an intermediate plan to exploit value in the near-term with a smaller scale DSO-style operation had been developed and a full Bankable Feasibility Study for the revised DSO-style operation had been undertaken. IRC advised that, once third party verification and a fatal flaws analysis are completed, further details will be announced. In addition, IRC announced that, in the meantime, it was exploring potential funding opportunities.

Investment in IRC

As described in the 2013 Annual Report, in January 2013, IRC entered into conditional agreements for a US$238 million subscription for new IRC Shares by General Nice Development Limited ('General Nice'), a member of a group of companies which collectively is one of the largest Chinese iron ore importers, and Minmetals Cheerglory, a wholly-owned subsidiary of China Minmetals Corporation.

Liquidity constraints have resulted in General Nice, to date, only completing c.80% of its planned investment.

Investment from Minmetals Cheerglory can only occur once the subscription by General Nice has been completed.

Assuming total investment completion occurs, the Group's interest in the share capital of IRC would be diluted to 40.68% (from 45.39 as at 31 December 2014) thus, the Group would lose control over IRC and IRC would cease being a subsidiary of the Group.

As the Company and IRC would consider pursuing other options if the further investment by General Nice and Minmetals Cheerglory does not take place, the Directors continue to consider it is highly probable that IRC will cease to be a subsidiary of the Group thus dilution of the Company's holding in IRC is expected to be completed within 12 months after the reporting date. Accordingly, IRC continues to be classified as 'held for sale' and presented separately in the balance sheet as well as presented as a discontinued operation in the income statement.

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

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

Chief Financial Officer's Statement

Andrey Maruta

Financial Highlights

	2014 US$ million	2013 US$ million
Continuing operations		
Total attributable gold production ('000oz)	624.5	741.2
Gold sold ('000oz)	617.2	736.3
Group revenue	865.0	1,199.8
Average realised gold price (US$/oz)	1,331	1,519
Average LBMA gold price afternoon fixing (US$/oz)	1,266	1,411
Total average cash costs for hard-rock mines (US$/oz) [(a)]	860	976
Total average cash costs (US$/oz) [(a)]	865	1,016
All-in sustaining costs [(b)]	970	1,248
Underlying EBITDA [(c)]	251.8	324.6
Adjusted profit/(loss) [(d)]	4.4	(1.5)
Loss for the period	(347.7)	(713.2)
From continuing operations	(182.2)	(513.8)
From discontinued operations	(165.5)	(199.4)
Basic loss per share	(US$1.33)	(US$3.11)
From continuing operations	(US$0.94)	(US$2.59)
From discontinued operations	(US$0.39)	(US$0.52)
Net cash from operating activities	133.2	281.6
From continuing operations	168.8	292.1
From discontinued operations	(35.6)	(10.5)

(a) Calculation of total cash costs ('TCC') is set out in the section Hard-rock mines and alluvial operations on pages 60 to 61 of this Annual Report.

(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 in June 2013. Calculation is set out in the section All-in sustaining costs and all-in costs on page 62 of this Annual Report.

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

(d) Calculation of adjusted profit/(loss) is set out in the section Net result from continuing operations on page 65 of this Annual Report.

	31 December 2014 US$ million	31 December 2013 US$ million
Cash and cash equivalents	48.1	170.6
Loans	(664.5)	(818.7)
Convertible bonds [(e)]	(313.3)	(300.3)
Net Debt	(929.7)	(948.4)

(e) US$310.5million convertible bonds due 2015 (the 'Existing Bonds') at amortised cost.

Note: Figures may not add up due to rounding.

Revenue

	2014 US$ million	2013 US$ million
Revenue from hard-rock mines and alluvial operations	825.5	1,122.5
Revenue from other operations	39.5	77.3
	865.0	1,199.8

Physical volumes of gold production and sales

	2014 oz	2013 oz
Gold sold from Pokrovskiy, Pioneer, Malomir, Albyn	588,231	651,477
Gold sold from alluvial operations	28,982	84,867
	617,213	736,344
Movement in gold in circuit and doré-bars	7,287	4,856
Total attributable production	624,500	741,200

Group revenue during the period was US$865.0 million, 28% lower than the US$1,199.8 million achieved in 2013.

Revenue from hard-rock mines and alluvial operations was US$825.5 million, 26% lower than the US$1,122.5 million achieved in 2013. Gold remains the key commodity produced and sold by the Group, comprising 95% of total revenue generated in 2014. The physical volume of gold sold decreased by 16% from 736,344 ounces in 2013 to 617,213 ounces in 2014. The average realised gold price decreased by 12% from US$1,519/oz in 2013 to US$1,331/oz in 2014. The average realised gold price was above the average market price of US$1,266/oz, reflecting the Group's efforts in effective hedging arrangements.

The Group sold 196,510 ounces of silver in 2014 at an average price of US$19/oz, compared to 176,638 ounces in 2013 at an average price of US$21/oz.

Revenue generated as a result of third-party work by the Group's in-house service companies was US$39.5 million in 2014, a US$37.8 million decrease compared to US$77.3 million in 2013. 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$34.1 million in 2014 compared to US$68.4 million in 2013.

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 364,253 ounces of gold matured during the year and contributed US$42.3 million to cash revenue (2013: US$107.7 million from forward contracts to sell an aggregate of 444,292 ounces of gold).

Forward contracts to sell an aggregate of 50,000 ounces of gold at an average price of US$1,310/oz were outstanding as at 31 December 2014.

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

Forward contracts and US$(1.6) million change in the options fair value contributed US$66/oz to the average realised gold price.

The Group constantly monitors gold price and hedges some portion of production for periods of up to 12-18 months as considered necessary.

The following hedge arrangements were outstanding as at 28 April 2015:

- forward contracts to sell an aggregate of 17,732 ounces of gold at an average price of US$1,311/oz; and
- option contracts for an aggregate of 76,548 ounces of gold with a strike price of US$1,150/oz.

Underlying EBITDA and analysis of operating costs

	2014 US$ million	2013 US$ million
Loss for the period from continuing operations	(182.2)	(513.8)
Add/(less):		
Interest expense	67.7	75.3
Investment income	(1.7)	(0.9)
Other finance gains	–	(19.4)
Foreign exchange losses	31.3	5.8
Taxation	167.9	(8.9)
Depreciation	144.0	224.8
Impairment/(reversal of impairment) of mining assets and goodwill	(28.9)	411.3
Impairment of exploration and evaluation assets	22.0	94.9
Impairment of ore stockpiles	10.1	55.6
Impairment of investments in associates	9.7	–
Write-down to adjust the carrying value of Koboldo's net assets to fair value	11.9	–
Underlying EBITDA	251.8	324.6

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

	2014 US$ million	2013 US$ million
Pioneer	131.5	206.2
Pokrovskiy	29.5	31.2
Malomir	25.7	53.9
Albyn	90.8	66.3
Alluvial operations	10.0	9.1
	287.5	366.7
Corporate and other	(35.7)	(42.1)
Underlying EBITDA	251.8	324.6

Hard-rock mines and alluvial operations
This period, hard-rock mines and alluvial operations generated underlying EBITDA of US$287.5 million compared to US$366.7 million underlying EBITDA in 2013.

The average total cash cost per ounce for the Group decreased from US$1,016/oz in 2013 to US$865/oz in 2014.

Total cash costs for hard-rock mines decreased from US$976/oz in 2013 to US$860/oz in 2014, primarily reflecting the effect of cost optimisation measures undertaken by the Group in response to the declining gold price environment, improvement in recovery rates at Pokrovskiy and Albyn, increase in grades processed at Albyn and Rouble depreciation. The decrease in the average realised gold price from US$1,519/oz in 2013 to US$1,331/oz in 2014 and decrease in physical ounces sold resulted in US$175.9 million decrease in the underlying EBITDA. This effect was partially mitigated by the improvement of the total cash costs which had a net US$93.2 million positive contribution to the underlying EBITDA in 2014. Alluvial operations contributed US$10 million to the underlying EBITDA, in line with 2013.

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 2013 there was ongoing inflation of certain Rouble denominated costs, in particular, electricity costs increased by up to 4% and cost of diesel increased by up to 4%. In the meantime, cost of chemical reagents decreased by up to 14% and consumables prices decreased by up to 4%. The impact of Rouble price inflation was mitigated by the 21% average depreciation of the Rouble against the US Dollar, with the average exchange rate for the period going from 31.9 Roubles per US Dollar in 2013 to 38.4 Roubles per US Dollar in 2014.

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

	2014		2013	
	US$ million	%	US$ million	%
Staff cost	98.3	23	146.6	24
Materials	152.8	36	194.4	32
Fuel	78.4	18	109.8	18
Electricity	35.8	8	49.4	8
Other external services	22.2	5	65.6	11
Other operating expenses	39.6	10	41.1	7
	427.1	100	606.9	100
Movement in ore stockpiles, work in progress and bullion in process attributable to gold production[(a)]	26.4		17.2	
Total operating cash expenses	453.5		624.1	

(a) Excluding deferred shipping.

	Hard-rock mines				Alluvial operations	2014 Total	2013 Total
	Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	US$ million	US$ million	US$ million
Revenue							
Gold	341.4	89.0	113.0	239.8	38.5	821.7	1,118.7
Silver	2.4	0.7	0.3	0.3	0.1	3.8	3.8
	343.8	89.7	113.3	240.1	38.6	825.5	1,122.5
Expenses							
Operating cash expenses	176.2	53.6	76.2	121.4	26.1	453.5	624.1
Refinery and transportation	1.5	0.4	0.4	0.6	0.1	3.0	5.7
Other taxes	4.5	1.0	3.9	4.1	0.2	13.7	8.6
Mining tax	19.5	5.2	7.1	13.7	2.2	47.7	61.6
Deferred stripping costs	10.6	–	–	9.5	–	20.1	51.6
Depreciation and amortisation	40.1	21.8	18.4	57.9	4.8	143.0	222.9
(Reversal of impairment)/ impairment of mining assets	–	–	–	(28.9)	–	(28.9)	285.2
Impairment of exploration and evaluation assets	–	3.5	0.1	–	0.4	4.0	0.2
Impairment/(reversal of impairment) of ore stockpiles	7.1	(3.4)	(3.2)	9.6	–	10.1	55.6
Write-down to adjust the carrying value of Koboldo's net assets to fair value	–	–	–	–	11.9	11.9	–
Loss on disposal of subsidiaries	–	–	–	–	–	–	4.2
Operating expenses	259.6	82.1	102.9	187.7	45.7	678.0	1,319.7
Result of precious metals operations	84.3	7.6	10.4	52.3	(7.1)	147.5	(197.2)
Segment EBITDA	131.5	29.5	25.7	90.8	10.0	287.5	366.7
Physical volume of gold sold, oz	256,816	67,264	84,707	179,444	28,982	617,213	736,344
Cash costs							
Operating cash expenses	176.2	53.6	76.2	121.4	26.1	453.5	624.1
Refinery and transportation	1.5	0.4	0.4	0.6	0.1	3.0	5.7
Other taxes	4.5	1.0	3.9	4.1	0.2	13.7	8.6
Mining tax	19.5	5.2	7.1	13.7	2.2	47.7	61.6
Deferred stripping costs	10.6	–	–	9.5	–	20.1	51.6
Operating cash costs	212.3	60.2	87.6	149.3	28.6	538.0	751.6
Deduct: co-product revenue	(2.4)	(0.7)	(0.3)	(0.3)	(0.1)	(3.8)	(3.8)
Total cash costs	209.9	59.5	87.3	149.0	28.5	534.2	747.8
TTC/oz for hard-rock mines, US$/oz	818	885	1,031	830	–	860	976
TTC/oz for alluvial operations, US$/oz	–	–	–	–	982	982	1,319
Average TTC/oz, US$/oz	–	–	–	–	–	865	1,016

All-in sustaining costs and all-in costs
In June 2013, the World Gold Council published its guidelines for reporting all-in sustaining costs and all-in costs. This period, the Group calculated and disclosed all-in sustaining costs and all-in costs for the first time.

AISC decreased from US$1,248/oz in 2013 to US$970/oz in 2014, reflecting the reduction in TCC as well as lower central administration expenses and sustaining capital expenditure related to the existing mining operations.

AIC decreased from US$1,439/oz in 2013 to US$1,088/oz in 2014, reflecting the decrease in all-in sustaining costs explained above, decrease in exploration expenditure and decrease of capital expenditure related to new projects, which was limited to fulfilling existing contractual commitments relating to POX.

	Hard-rock mines				Alluvial operations	2014 Total	2013 Total
	Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	US$ million	US$ million	US$ million
Physical volume of gold sold, oz	256,816	67,264	84,707	179,444	28,982	617,213	736,344
Total cash costs	209.9	59.5	87.3	149.0	28.5	534.2	747.8
Average TCC/oz, US$/oz	818	885	1,031	830	982	865	1,016
Impairment of ore stockpiles	7.1	(3.4)	(3.2)	9.6	–	10.1	55.6
Adjusted operating costs	217.0	56.1	84.1	158.6	28.5	544.3	803.4
Central administration expenses	15.9	4.2	5.2	11.1	1.8	38.2	45.8
Capitalised stripping at end of the period	–	–	–	8.4	–	8.4	20.1
Capitalised stripping at beginning of the period	(10.6)	–	–	(9.5)	–	(20.1)	(51.6)
Close-down and site restoration	0.3	(1.6)	1.9	3.3	–	3.9	4.8
Sustaining capital expenditure	5.4	0.3	0.7	16.8	1.1	24.3	96.2
All-in sustaining costs	228.0	59.0	91.9	188.7	31.4	599.0	918.7
All-in sustaining costs, US$/oz	888	876	1,085	1,051	1,080	970	1,248
Exploration expenditure	14.6	0.7	8.1	9.8	0.9	34.1	46.9
Capital expenditure	14.6	0.0	23.7	0.1	–	38.4	93.8
All-in costs	257.2	59.7	123.7	198.6	32.3	671.5	1,059.4
All-in costs, US$/oz	1,002	887	1,461	1,107	1,113	1,088	1,439

Corporate and other

The Group has corporate offices in London, Moscow and Blagoveschensk which together represent the central administration function. Central administration expenses decreased by US$7.6 million from US$45.8 million in 2013 to US$38.2 million in 2014, primarily reflecting cost cutting measures undertaken by the Group.

This period, other operations contributed US$2.5 million to the underlying EBITDA, in line with US$3.7 million in 2013.

Impairment review

Impairment of mining assets

The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no impairment was required as at 31 December 2014.

The estimated recoverable amounts demonstrated improvements compared to the previous year as a result of cost optimisation measures undertaken by the Group in response to the declining gold price environment, increase in the Group's non-refractory mineable reserves and effect of the Rouble depreciation on operating cash costs.

Having considered the excess of estimated recoverable amounts over the carrying values of the associated assets on the balance sheet as at 31 December 2014, the Directors concluded on the following:

– A reversal of the impairment previously recorded against the carrying value of the assets that are part of the Albyn reportable segment would be appropriate. Accordingly, a post-tax impairment reversal of US$23.1 million (being US$28.9 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 Albyn.

– Whilst there have been improvements in the recoverable amounts of assets that are part of Pioneer and Malomir reportable segments, there is still uncertainty connected with the timing of the final construction and performance of the POX Hub, and, accordingly, no impairment reversals have been recorded. When the aforementioned uncertainty is eliminated or substantially reduced, there is a potential for reversal of the impairment previously recorded against the carrying values of the aforementioned assets.

The forecast future cash flows are based on the Group's current mining plan. The other key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out below:

	Year ended 31 December 2014	Year ended 31 December 2013
Long-term gold price	US$1,200/oz	US$1,250/oz
Discount rate [(a)]	9.5%	9.5%
RUR/ US$ exchange rate	RUR60.0/US$	RUR33.0/US$

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 11.8% (2013: 12.5%).

Impairment of exploration and evaluation assets

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

– considering the anticipated timescale for a potential financial return from exploration and evaluation assets in Guyana, an impairment provision of US$13.3 million was recognised against the carrying values of the associated assets included in exploration and evaluation costs previously capitalised within intangible assets (US$10.4 million), property, plant and equipment (US$1.2 million) and inventories (US$1.7 million);

– considering the anticipated timescale for a potential financial return from the Tokur assets, which are awaiting development of a full-scale mining operation and which was put on hold in 2013, a further US$4.8 million impairment provision was recognised against the carrying values of the associated assets previously capitalised within property, plant and equipment (US$1.4 million) and inventories (US$3.4 million); and

– US$4.0 million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various licence areas, primarily located in the Amur region.

For the year ended 31 December 2014

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 2014			Year ended 31 December 2013		
	Pre-tax impairment charge/ (reversal of impairment) US$ million	Taxation US$ million	Post-tax impairment charge/ (reversal of impairment) US$ million	Pre-tax impairment charge US$ million	Taxation US$ million	Post-tax impairment charge US$ million
Pokrovskiy	(3.4)	0.7	(2.7)	7.7	(1.5)	6.2
Pioneer	7.1	(1.4)	5.7	36.3	(7.3)	29.0
Malomir	(3.2)	0.6	(2.6)	9.2	(1.8)	7.4
Albyn	9.6	(1.9)	7.7	2.4	(0.5)	1.9
	10.1	(2.0)	8.1	55.6	(11.1)	44.5

Impairment of investments in associates
Taking into consideration the alternatives sought to realise the value of investments in associates through sale and indicative purchase consideration from the potential buyers, respective impairment provision of US$9.7 million was recognised against the associated carrying values.

Interest income and expense

	2014 US$ million	2013 US$ million
Investment income	1.7	0.9

The Group earned US$1.7 million interest income on the cash deposits with banks.

	2014 US$ million	2013 US$ million
Interest expense	80.6	94.2
Less interest capitalised	(13.4)	(19.3)
Other	0.5	0.4
	67.7	75.3

Interest expense for the period was comprised of US$25.4 million effective interest on the Convertible Bonds and US$55.2 million interest on bank facilities (2013: US$29.4 million and US$64.8 million, respectively). A further US$13.4 million of this interest expense was capitalised as part of mine development costs within property, plant and equipment (2013: US$19.3 million).

Other finance gains

	2014 US$ million	2013 US$ million
Gain on buy-back of convertible bonds	–	19.4
	–	19.4

Taxation

	2014 US$ million	2013 US$ million
Tax charge / (credit)	167.9	(8.9)

The Group is subject to corporation tax under the UK, Russia and Cyprus tax legislation. The average statutory tax rate for 2014 was 21.5% in the UK and 20% in Russia.

The tax charge for this period primarily relates to the Group's precious metals operations and is represented by the current tax of US$34.5 million (2013: US$39.7 million) and by the deferred tax, which is a non-cash item, of US$133.4 million (2013: deferred tax credit of US$48.5 million). Included in the deferred tax charge is a US$128.8 million foreign exchange effect. This arises primarily 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 Roubles whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value and reflects the significant depreciation of the Rouble against the US Dollar in 2014. The deferred tax credit in 2013 was predominantly driven by the impact of impairment charges and associated reversal of deferred tax liabilities.

This period, the Group made corporation tax payments in aggregate of US$34.0 million in Russia (2013: corporation tax payments in aggregate of US$39.7million in Russia).

Net result from continuing operations
This period net loss from continuing operations amounted to US$182.2 million, compared to net loss of US$513.8 million in 2013. Adjusted for the effect of certain non-cash and one-off items as set out below, net profit from continuing operations was U$4.4 million compared to a US$1.5 million loss in 2013.

Adjusted profit/(loss) from continuing operations

	2014 US$ million	2013 US$ million
Loss for the period from continuing operations	(182.2)	(513.8)
Add/(less):		
Write-down to adjust the carrying value of Koboldo's net assets to fair value	11.9	–
Impairment charges, net of tax	14.6	498.4
Deferred tax charge - effect of foreign exchange	128.8	23.8
Foreign exchange losses	31.3	5.8
Gain on buy-back of convertible bonds	–	(19.4)
Loss on disposal of subsidiaries	–	3.7
Adjusted profit/(loss) from continuing operations	4.4	(1.5)

Loss per share

	2014	2013
Loss for the period from continuing operations attributable to equity holders of Petropavlovsk PLC	US$184.3 million	US$509.0 million
Weighted average number of Ordinary Shares	196,423,244	196,415,932
Basic loss per ordinary share from continuing operations	US$0.94	US$2.59

Basic loss per share from continuing operations for 2014 was US$0.94 compared to US$2.59 basic loss per share for 2013. The key factor affecting the basic loss per share was the decrease of net loss for the period attributable to equity holders of Petropavlovsk PLC from US$509.0 million for 2013 to US$184.3 million for 2014.

The total number of Ordinary Shares in issue as at 31 December 2014 was 197,638,425 (31 December 2013: 197,638,425).

The Group has a number of potentially dilutive instruments which were anti-dilutive in the years 2013 and 2014 and, accordingly, diluted loss per share was not different from the basic loss per share.

Discontinued operations – IRC

On 17 January 2013, IRC Limited ('IRC') entered into conditional subscription agreements with each of General Nice Development Limited ('General Nice') and Minmetals Cheerglory Limited ('Minmetals') for a strategic investment by General Nice and Minmetals in new shares of IRC for up to approximately HK$1,845 million (equivalent to approximately US$238 million) in aggregate. The above transactions were approved at the Company's Extraordinary General Meeting on 7 March 2013 and the Extraordinary General Meeting of IRC Limited on 11 March 2013.

As at 31 December 2014 and 28 April 2015, General Nice has invested approximately US$170 million into IRC, which represents more than 80% of their subscription obligation. Although full completion of the investment from General Nice and Minmetals has been delayed, General Nice has agreed to commence paying interest on the outstanding investment amount of US$38 million from December 2014 onwards. IRC is in discussions with General Nice and Minmetals about a further deferred completion and other available options. Both Minmetals and General Nice have confirmed to IRC that they wish to invest further in IRC. Details of the transactions and developments that occurred since 31 December 2013 until the date of are set out in note 27 to the consolidated financial statements.

As at 31 December 2014, the Group's interest in the share capital of IRC was 45.39% (31 December 2013: 48.7%). The Group retains sufficiently dominant voting interest to exercise de facto control over IRC on the basis of the size of the Group's shareholding relative to the size and dispersion of the shareholding interests of other shareholders.

If total investment completion occurs, the Group's interest in the share capital of IRC would be diluted to 40.68% and, with another significant shareholder block in place and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group would lose control over IRC and IRC would cease being a subsidiary of the Group.

The Directors continue to consider it is highly probable that IRC will cease to be a subsidiary of the Group within 12 months after the reporting date and, accordingly, IRC continues to be classified as 'held for sale' and presented separately in the balance sheet as well as presented as a discontinued operation in the income statement. In the event completion of the strategic investment by General Nice and Minmetals is further delayed, the Directors are confident that other avenues resulting in the Group losing control over IRC could be successfully pursued.

This period IRC generated US$51.1 million operating losses and recognised US$18.8 million impairment, in aggregate, against its Kuranakh mining assets.

The Group recorded a further US$89.6 million write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell based on IRC's share price of HK$0.52 as at 31 December 2014 and reflect the change in the market share price of IRC shares.

Financial position and cash flows

	31 December 2014 US$ million	31 December 2013 US$ million
Cash and cash equivalents	48.1	170.6
Loans	(664.5)	(818.7)
Convertible bonds [(a)]	(313.3)	(300.3)
Net Debt	(929.7)	(948.4)

(a) US$310.5 million convertible bonds at amortised cost.

	2014 US$ million	2013 US$ million
Net cash from operating activities:		
Continuing operations	168.8	292.1
Discontinued operations	(35.6)	(10.5)
	133.2	281.6
Net cash used in investing activities:		
Continuing operations	(91.4)	(182.2)
Discontinued operations	(95.9)	(110.4)
	(187.3)	(292.6)
Net cash (used in) / from financing activities:		
Continuing operations	(161.8)	(102.3)
Discontinued operations	89.8	196.2
Intra-group loan to discontinued operations	–	10.0
	(72.0)	103.9

Key movements in cash and net debt from continuing operations

	Cash US$ million	Debt US$ million	Net Debt US$ million
As at 1 January 2014	170.6	(1,119.0)	(948.4)
Net cash generated by operating activities before working capital changes	210.4	–	
Decrease in working capital	60.2	–	
Income tax paid	(34.0)	–	
Capital expenditure on Gold Division projects and in-house service companies	(62.7)	–	
Exploration expenditure on Gold Division projects	(34.1)	–	
Amounts repaid under bank facilities, net	(154.0)	154.0	
Interest accrued	–	(80.6)	
Interest paid	(67.8)	67.8	
Refinancing costs	(7.8)	–	
Cash of Koboldo re-classified as assets held for sale	(7.7)	–	
Foreign exchange	(30.5)	–	
Other	5.5	–	
As at 31 December 2014	48.1	(977.8)	(929.7)

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

- an aggregate US$34.4 million decrease in ore stockpiles primarily due to the partial processing of ore stockpiles at Pioneer, Pokrovskiy and Malomir and reduction of mining costs at Pioneer which contributed US$29.7 million, US$4.2 million and US$11.6 million, respectively, partially offset by the increase in ore stockpiles at Albyn;
- US$11.6 million decrease in capitalised deferred stripping costs primarily due to depreciation of prospective stripping undertaken at Pioneer in prior periods; and
- US$13.8 million decrease in raw materials and spare parts.

As at 31 December 2014 there were no undrawn facilities available to the continuing operations.

Capital expenditure

The Group spent an aggregate of US$96.8 million on its gold projects in 2014 compared to US$236.9 million invested in 2013. The key areas of focus in 2014 were on fulfilling existing contractual commitments relating to POX, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the main mining operations.

	Exploration expenditure US$ million	Development expenditure and other CAPEX [a] US$ million	Total US$ million
POX	–	36.9	36.9
Pokrovskiy and Pioneer	14.3	5.0	19.3
Malomir	7.8	1.6	9.4
Albyn	9.3	16.4	25.7
Visokoye	0.2	0.3	0.5
Alluvial operations	0.9	1.0	1.9
Upgrade of in-house service companies	–	1.4	1.4
Other	1.6	0.1	1.7
	34.1	62.7	96.8

(a) Including US$38.5 million of development expenditure in relation to POX and flotation line at Malomir that is considered to be non-sustaining capital expenditure for the purposes of calculating the all-in sustaining costs and all-in costs.

Foreign currency exchange differences

The Group's principal subsidiaries have a US Dollar functional currency. Foreign exchange differences arise on translation of monetary assets and liabilities denominated in foreign currencies, which for the principal subsidiaries of the Group are 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 2014	31 December 2013
GB Pounds Sterling (GBP: US$)	0.64	0.60
Russian Rouble (RUB: US$)	56.26	32.73

The Rouble depreciated by 72% against the US Dollar during 2014, from RUB32.73/USD as at 31 December 2013 to RUB56.26/USD as at 31 December 2014. The average year-on-year depreciation of Rouble against the US Dollar was approximately 21%, with the average exchange rate for 2014 being RUB38.44/USD compared to RUB31.85/USD for 2013.

As a result of the significant devaluation of the Russian Rouble, the Group recognised foreign exchange losses of US$31.3 million in 2014 (2013: US$5.8 million) arising primarily on the Rouble denominated net monetary assets.

Refinancing

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

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

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

  The New Bonds were issued by the Group's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The New Bonds carry a coupon of 9.00% payable quarterly in arrears and are convertible into redeemable preference shares of Petropavlovsk 2010 Limited which are guaranteed by and will be exchangeable immediately upon issuance for Ordinary Shares in the Company.

The conversion price has been set at £0.0826 per Ordinary Share, subject to adjustment for certain events, and the conversion exchange rate has been fixed at US$1.5171:£1. The New Bonds were admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange on 18 March 2015.

– Settlement of the Existing Bonds:

The Existing Bonds with a par value of US$310.5 million were settled set out below.

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

– Bank Waivers:

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

The estimated aggregate transaction expenses comprise approximately US$41 million, out of which US$7.8 million were paid as at 31 December 2014. Included in the transaction costs paid as at 31 December 2014 are US$0.4 million expensed during the year and US$7.4 million deferred until transaction completion.

Disposal of alluvial operations
On 21 November 2014, the Group entered into a conditional Share Purchase Agreement ('SPA') relating to the sale of its 95.7% interest in Koboldo, the Group's alluvial operations, however, due to the non-fulfilment of certain conditions precedent, the sale was not finalised at the time.

Subsequently, the Group was approached by another purchaser, Global-Polymetall, with whom the Group entered into a SPA relating to the sale of its 95.7% interest in Koboldo on 16 April 2015. The total cash consideration for the transaction is RUB 942 million (equivalent of c.US$ 18.7 million) plus reimbursement of VAT for the fourth quarter 2014, payable within prescribed timeframes from the date of entering into the SPA.

The disposal of Koboldo is expected to be completed within 12 months after the reporting date and accordingly Koboldo has been classified as 'held for sale' and presented separately on the balance sheet as at 31 December 2014. The Group recorded a US$11.9 million write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell based on the indicative cash consideration.

Disposal of investments in associates
On 7 April 2015, the Group entered into a Share Purchase Agreement to sell 25% interest in CJSC ZRK Omchak ('Omchak') for a total cash consideration of US$1 million. The carrying value of the Group's share in Omchak was partially written down in 2014 to reflect the effect of disposal.

Going concern
The financial position of the Group, its cash flows and liquidity position are described in the section Financial position and cash flows above.

As a separate listed group, IRC is required to perform an assessment of their going concern position. In their 31 December 2014 annual report they have identified a material uncertainty in relation to their ability to continue to operate as a going concern, and accordingly their auditor, Deloitte Hong Kong, referenced this in an emphasis of matter in their audit report published on 25 March 2015. The main uncertainties in relation to the ability of IRC to continue to operate as a going concern are the timing of the commissioning of the K&S project and the substantial drop in the iron ore price.

As the Group has guaranteed the outstanding amounts IRC owe to ICBC, which outstanding loan principal was US$266.7 million as at 31 December 2014, the assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is a key element of the Group's overall going concern assessment.

The Group performed an assessment of the forecast cash flows for its gold division. Following the successful completion of the Refinancing and receipt of covenant relaxation and waivers, the Group is satisfied that it has sufficient headroom under a reasonable downside scenario for the period to April 2016 to cover both its own cash flow requirements together with any potential deficit in IRC, subject to a mechanism for providing this funding being established. The Directors are confident that, should it be required, such a mechanism could be established.

Accordingly, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2014 Annual Report and Accounts. Thus, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

2015 Outlook
The Group is on track to achieve 2015 production guidance of 680-700Koz. As the Group's operating cash expenses are substantially Rouble denominated, the Group expects that the impact of Rouble price inflation will be mitigated by the depreciation of the Rouble against the US Dollar. The Group expects a significant decrease in its total average cash costs of production in 2015 to lower than US$700/oz at current exchange rate due to its cost optimisation programme, the devaluation of the Rouble and processing higher grade ore. In line with the Group's strategy of debt reduction, net debt is expected to decrease below US$600 million by the end of 2015 assuming an average gold price of US$1,200/oz for the rest of the year 2015.

The Strategic Report provides an overview of our business activities, future development and performance and has been approved by the Board and signed on its behalf by:

Peter Hambro
Chairman

Governance

In this section


ПАВЛОВСК
КОМПАНИЙ

Board of Directors

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

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

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

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

Dr Pavel Maslovskiy
Chief Executive Officer
One of the co-founders of the Company. Dr Maslovskiy held directorships within the Group including the position of Chief Executive Officer from the Group's inception 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, effective from November 2014. Acted as Honorary President during 2012 to November 2014.

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

External appointments: None.

Committee membership: Dr Maslovskiy is a member of the Executive and the Anti-Bribery Committees.

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

Experience: Mr Maruta qualified as a Chartered Certified Accountant at Moore Stephens in 2001 and joined the Group in 2003 as Group Chief Accountant. He was appointed Deputy Finance Director in 2005 and Finance Director in 2006. He is a fellow member of The Association of Chartered Certified Accountants.

External appointments: None.

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

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

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

External appointments: Lord Guthrie is an independent member of the House of Lords, a board member of the Moscow School of Policy Studies, a Visiting Professor and Honorary Fellow of King's College London, Colonel of the Life Guards and Gold Stick to the Queen. He is also a director of Colt Defense LLC and a non-executive director of Gulf Keystone Petroleum Ltd.

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

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

Experience: Dr Humphreys has a broad range of experience in the global mining industry through his work for mining companies and as a consultant and academic. He was chief economist at Norilsk Nickel, Russia's largest mining company, from 2004 to 2008. He was previously with Rio Tinto for 18 years, the last eight of these as the company's chief economist. Prior to joining Rio Tinto, Dr Humphreys worked for nine years in the UK government service, for six of these as an adviser on minerals policy.

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

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

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

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

External appointments: Deputy Chairman of the Council of the Royal Institute of International Affairs (Chatham House) and a member of the Committee of the Iraq Inquiry. In addition, Sir Roderic is a non-executive director of JP Morgan Bank International LLC.

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

Dr Graham Birch
Senior Non-Executive Director
Dr Birch was appointed to the Board in February 2010 and as Senior Independent Non-Executive Director in January 2011.

Experience: Dr Birch was formerly a director of BlackRock Commodities Investment Trust Plc and manager of BlackRock's World Mining Trust and Gold & General Unit Trust. Prior to joining BlackRock, Dr Birch worked at Mercury Asset Management, OrdMinnett/Fleming OrdMinnett and Kleinwort Benson Securities.

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

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

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

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

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

External appointments: None.

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

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

Experience: Sir Malcolm Field was previously a non-executive director of Aricom plc, a position he had held since 2003. Sir Malcolm served as Chairman of the Civil Aviation Authority and Chairman of Tube Lines Limited, one of the London Underground consortia. He was formerly Chief Executive Officer of WH Smith Plc. Sir Malcolm has held non-executive directorships with numerous companies, including Scottish & Newcastle plc and Evolution Group Plc.

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

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

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

Experience: Mr McVeigh was co-chairman of Citigroup's European Investment Bank and served on the board of Witan Investment Company plc, Clearstream, the London Stock Exchange, LIFFE and British American Business Inc. He was also appointed by the Bank of England to serve on the City Capital Markets Committee.

External appointments: Mr McVeigh was appointed as Chairman of Rubicon Wealth Management LLIP, a London based Hedge fund, with effect from 1 January 2015, and is a Senior Advisor for Citigroup. He also serves on the boards of EFG-Hermes, Savills Plc and Canongate. He is a Trustee of the Landmark Trust and the National History Museum.

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

Dr Alfiya (Alya) Samokhvalova
Strategic Director
Dr Samokhvalova was appointed to the Board as Strategic Director in January 2011.

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

Dr Samokhvalova holds a Masters Degree in Investment Management from CASS Business School, London, and a PhD in Economics from the Moscow International High Business School.

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

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

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

Experience: Mr Smith joined the Group's management team in 1994 on secondment from Kier International. In 2006, he joined Aricom plc as Technical Director and, following Aricom's merger with the Group in 2009, he became Group Head of Technical Services being appointed to the Board in January 2011. With over 30 years' experience in the global natural resources industry he commenced his career as a mining engineer at Anglo American Corporation, later leading projects for Kier International, Costain Mining and Shell International.

External appointments: None.

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

Corporate Governance Report

Dear Shareholder

As detailed in my Chairman's Statement the principal focus of the Board during 2014 and the early part of 2015 was the refinancing of the Group's outstanding US$310.5 million 4% Convertible Bonds due 2015, the successful delivery of which was critical to the future of the Group. This was completed on 18 March 2015. This was a time-consuming exercise for the Board and the Executive team with many alternative refinancing avenues explored throughout the year. Importantly the Board also retained focus on the Group's operational performance and the ongoing cost-cutting programme, with the Group delivering 624,500oz of gold production and a reduction in cash costs to US$865oz, both in line with our market guidance.

During the year, the Group's strong corporate governance policies and framework were vital in ensuring that the Board acted and, indeed, continues to act responsibly and with accountability at all times with consideration for all of its stakeholders. The role of the Independent Directors within this framework was particularly important during the Refinancing, given my participation and that of Dr Maslovskiy's in the underwriting of the Rights Issue. In order that the Independent Directors could perform their role throughout the Refinancing they were given full access to the Group's management team, its advisors and to independent legal counsel as was deemed by them to be appropriate. Neither I or Dr Maslovskiy voted on any matters regarding the underwriting of the Rights Issue.

Board composition
Following careful consideration, the Board has determined that all of the current Non-Executive Directors are independent and free from any relationship or circumstance that could affect or appear to affect their independent judgement. The Board currently consists of six independent Non-Executive Directors, five Executive Directors and myself as Chairman.

However we announced to our Shareholders on 2 February 2015, that given the reduced size of the Company's market capitalisation relative to its previous levels, the size of the Board would be reduced to seven members following the completion of the Refinancing.

The reduced Board will consist of three Executive Directors: myself as Chairman, Dr Pavel Maslovskiy, Chief Executive Officer and Mr Andrey Maruta, Chief Financial Officer. The Non-Executive Directors will comprise Sir Roderic Lyne, Mr Robert Jenkins, who will be appointed as a Director with effect from 30 April 2015 and, as previously advised, two other Non-Executive Directors who will be selected by the Board together with representatives of former holders of the Group's 4% Convertible Bonds due 2015. This selection process is ongoing and we are working closely with the Bondholder representatives to ensure that the new Board is constituted in a timely manner in order to provide continuity.

Mr Jenkins, a chartered accountant by profession, assisted the Audit Committee and the Board throughout the recent period of refinancing providing valuable guidance and I look forward to working with him as a fellow Director. The biography of Mr Jenkins who has more than 20 years of Russian related experience, will be provided in the notice of the 2015 Annual General Meeting. All Directors will stand for re-election or re-appointment at the forthcoming AGM – the Board considers that both Sir Roderic Lyne and Mr Robert Jenkins are independent.

Shareholders may wish to note that I was not considered 'independent' under the terms of the UK Corporate Governance Code published by the Financial Reporting Council at the date of my appointment as Chairman nor do I satisfy the required independent criteria now. However, the Board is satisfied that my role as Chairman is clearly separated from that of the Chief Executive Officer. Further details of these roles are provided on page 76 of this Report.

Following the constitution of the reduced Board, the composition of the Board Committees will be revised, full details of which will be included in next year's Annual Report.

With regards to my colleagues who will be retiring as Executive Directors Dr Alya Samokhvalova and Mr Dmitry Chekashkin will remain with the Group, retaining membership of the Executive Committee and continuing in their roles as Strategic Director/Head of External Communications and Chief Operating Officer respectively whilst Mr Martin Smith, Deputy Chief Executive will be retiring from the Group.

Board evaluation
As we stated in our Prospectus to Shareholders dated 2 February 2015, due to the Board's principal focus on the Refinancing during 2014, and our decision to restructure the composition of the Board and its Committees, the Board did not consider that a formal evaluation of its own performance or that of its Committees was appropriate. It is the intention that an evaluation process will be undertaken at the end of 2015 when the new Board is fully established. The results of this evalution will be detailed in the 2015 Annual Report.

Annual General Meeting
The Annual General Meeting is recognised as an opportunity for private shareholders to engage with the Board and I look forward to welcoming you to the Annual General Meeting to be held on 18 June 2015.

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

Peter Hambro
Chairman
28 April 2015

Compliance statement

The UK Corporate Governance Code 2012 (the Code) is the standard applying to good corporate governance practice in the UK, and the Listing Rules require listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year. (For information on the Code, visit frc.org.uk).

The Company has complied with the requirements of the Code throughout the accounting period, other than in respect of:

Provision B.1.1. of the Code requires that the Board should state its reasons for determing that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director has served on the board for more than nine years from the date of their first election. Including his service as a director of Aircom plc, from 2003 to 2009, Sir Malcolm Field has served on the Board of the Company for a continuous perod of more than nine years.

Sir Malcolm is highly experienced in both executive and non-executive roles and during the year and as at the date of this report continued to offer a regular, substantive and intellectual challenge to the Executive Directors on their strategy for and management of the business in his role as a Non-Executive Director. Consequently the Board continues to consider Sir Malcolm as independent in character and judgement and has therefore determined that Sir Malcolm is an independent Non-Executive Director of the Company.

Sir Malcolm will retire as a Director of the Company on 30 April 2015.

Provision B.6 of the Code states that the Board should undertake a formal and rigorous annual evalution of its own performance and that of its committees. As stated in the Chairman's introduction to this Corporate Governance Report an annual evaluation was not undertaken during 2014, given the Board's focus on the Refinancing and the intention to reduce the size of the Board and appoint three new Non-Executive Directors, thus constituting a 'new' Board. It is the intention that an evaluation will be undertaken later in 2015 when the new Board is fully established.

Provision B.1 of the Code states that the board should include an appropriate combination of executive and non-executive directors. The Board recognises that from 30 April 2015, when five of its current Non-Executive Directors retire, until at least one candidate is appointed as a Non-Executive Director as a result of the Company's current search, it will not be in compliance with this Code provision, as the Board will comprise the Chairman, two Executive Directors and two Non-Executive Directors. However the Board and the representatives of the Bondholders, who are involved in the selection process, consider that it is important that high calibre candidates are appointed with the requisite skills and experience in order to achieve a balanced Board even if this results in non-compliance with the Code for a short period of time. The Board is endeavouring to fulfil these positions expeditiously and an announcement will be made to the market as appropriate.

The Board

The role of the Board:

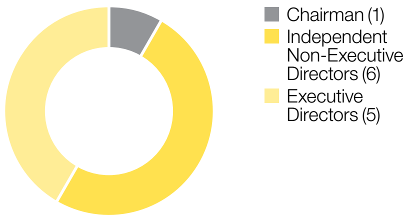
The Board is responsible to Shareholders for the success of the Company. The Group's near-term, medium-term and long-term strategy, set by the Board, are fully described in the Strategic Report on page 14. The Board's role is to ensure that the Company follows this strategy and that a financial and operational structure is in place to enable the Group to meet its goals.

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

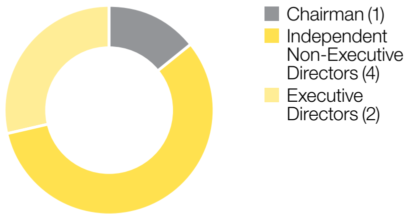
The Board of Directors:

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

Current balance of Directors



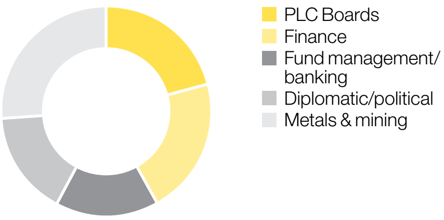
'New' Board balance of Directors(1)



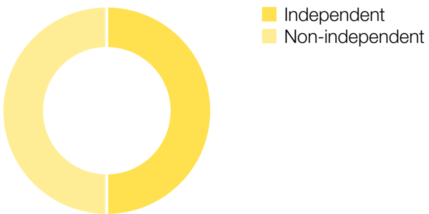
(1) Following proposed appointment of two additional Non-Executive Directors.

Following his retirement as a Member of the Federation Council (Upper House of the Russian Parliament), Dr Pavel Maslovskiy was available to re-join the Board of Directors. Dr Maslovskiy was re-appointed as Chief Executive Officer and as a Director of the Company on 5 November 2014. Mr Sergey Ermolenko, who had held the role of Chief Execuitve Officer of the Company since December 2011, retired from that position with effect from 5 November 2014. Mr Ermolenko reverted to his former role as General Director of Management Company Petropavlovsk, a Russian subsidiary of the Group. Mr Ermolenko retained his membership of the Executive Committee.

Business experience

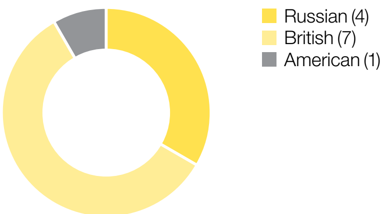


Independence



Country of primary residence

Nationality



Board roles

The Chairman, the Chief Executive Officer and the Deputy Chief Executive

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

The Chairman provides the leadership to the Board, necessary to promote the success of the Company and create value for Shareholders in the long-term, whilst ensuring that sound effective corporate governance practices are embedded in the Group and in its decions making processes.

The Chief Executive Officer is responsible for developing the Group's objectives and strategy and for the successful achievement of objectives and execution of strategy, following approval by the Board. The CEO supervises the Group's operations within Russia, managing the Group's risk profile and ensuring that appropriate internal control procedures are in place.

The Deputy Chief Executive supports the CEO in the development and implementation of the Group's strategic plans and policies, serves an an external representative of the Group, provides technical management and acts as the focal point for communication between Russia and London.

The role of Deputy Chief Executive will cease following the retirement of Mr Martin Smith as a Director and as Deputy Chief Executive on 30 April 2015 and due to the reduced size of the Board. The responsibilities of this role will be reallocated.

Non-Executive Directors

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

Senior Independent Director

Dr Graham Birch was the Company's Senior Independent Director throughout 2014 and as at the date of this report. Dr Birch provides an independent access point to the Company's institutional Shareholders to whom he is well known.

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

Dr Birch will retire as a Non-Executive Director of the Company on 30 April 2015.

Effectiveness and accountability of the Board

The Director's business experience, independence and country of permanent residence

The graphs on pages 75 and 76 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, country of primary residence and nationality.

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

Board activities during the year

In 2014, the Board met on seven scheduled occasions, with an additional eleven meetings principally due to the Refinancing. Many of these additional meetings were called at short notice and were accommodated as conference calls. Further Board meetings were held to deal with matters of a routine or administrative nature.

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

- Refinancing including:
  - Issuance of a new convertible bond;
  - Launch of a Rights Issue;
  - Repayment of the outstanding US$310.5 million 4% Convertible Bonds due 2015;
  - Negotiations with the principal Bondholders; and
  - Status of discussions with the Group's Senior Lenders with regards to waivers or relaxation of certain financial covenants at 31 December 2014 until 31 December 2015;

- The disposal of the Group's 95.7% interest in OJSC ZDP Koboldo, a non-strategic alluvial asset, originally announced by the Company on 24 November 2014, with a further announcement on 20 April 2015;
- The classification of IRC as an asset held for sale;
- The Group's hedging arrangements;
- The composition of the Board; and
- The re-appointment of Dr Pavel Maslovskiy as Chief Executive Officer.

Board Committees

The Board is responsible for the Group's system of corporate governance and is ultimately responsible for the Group's activities, strategy, risk management and financial performance. The Board has established a number of Committees and provides sufficient resources to enable them to undertake their duties. Please see pages 78 to 79 for further details of these Committees.

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

Induction and professional development

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

The Board considers that visits to the Group's gold mining operations are an important part of a Director's induction and their understanding of the size and scale of the Group's operations – all of the current Directors have now visited the Group's mining operations, at least once. It is the intention that a visit to the Group's operations will be arranged for the new non-executive director, to be appointed on 30 April 2015.

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

Information flow

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

All Directors have access to the services of a professionally-qualified and experienced Company Secretary, who is responsible for information flows to the Board and its committees and between senior management and Non-Executive Directors, facilitating induction and assisting with professional development as required, ensuring compliance with Board procedure and applicable laws and regulation.

Professional advice

There is an agreed procedure for Directors to take independent professional advice if considered necessary to discharge their responsibilities as Directors, and at the Company's expense.

Investor engagement

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

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

Given the Company's large retail shareholder base, prior to the completion of the Refinancing, the Company's Investor Relations department, based at our registered office in London, engaged on a regular basis during the year with individual Shareholders seeking an update on the Company's refinancing plans and its operational performance.

The Company values these individual Shareholders and is also grateful for their support throughout the period of the Refinancing and for voting at the general meeting held on 26 February 2015 to approve this transaction.

The Board encourages as many Shareholders as possible to attend the Company's Annual General Meeting during which Shareholders are given the opportunity to discuss any matters with the Board. Shareholders are kindly asked to read the accompanying notes to the Notice of Annual General Meeting to ensure that they have the correct documentation with them should they wish to attend the meeting on 18 June 2015. Shareholders are welcome to contact our Investor Relations department during the year with any specific queries regarding the Company.

The Chairman ensures that any significant concerns raised by a Shareholder in relation to the Company are communicated to the Board. Feedback from meetings held between the Executive Team and institutional Shareholders is also communicated to the Board.

Annual re-electon of Directors

In accordance with the recommendations of the Code, all eligible Directors will be offering themselves for re-election or appointment at the AGM on 18 June 2015. The re-election of each of the Directors has been reviewed by the Nomination Committee. The Board recommends that Shareholders vote in favour of the resolutions to appoint or re-elect all of the eligible Directors of the Company and the reasons for this recommendation will be set out in the Appendix to the Notice of the Annual General Meeting.

Board Committees

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

The Board and its Committees

Board

The Board is responsible for the Group's system of corporate governance and is ultimately accountable for the Group's activities, strategy, risk management and financial performance.

Board Committees and how they support the Board

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

Audit Committee

- Reviews Audit Report on the interim review and full year audit.
- Reviews appropriateness of accounting standards.
- Oversees relationships with external auditors.
- Overseas external audit process.
- Reviews the financial risks.
- Reviews internal audit plans.

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

Remuneration Committee

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

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

Nomination Committee

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

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

Risk Committee

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

Risks to Our Performance on pages 26 to 37 of this Report.

HSE Committee

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

Please see pages 56 and 57.

Anti-bribery Committee

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

Please see page 79.

Executive Committee

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

Please see page 79.

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

Executive Committee

Strategic Committee

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

Technical Committee

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

Both Committees working together.

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

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

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

Executive Committee
Membership:

- Mr Peter Hambro, Chairman
- The five Executive Directors
- Mr Valery Alexseev, Group Head of Construction and Engineering
- Mr Sergey Ermolenko, General Director Management Company Petropavlovsk
- Mr Alexey Maslovskiy, Business Development Manager
- Mrs Anna-Karolina Subczynska, Group Head of Legal Affairs
- Mr Andrei Tarasov, Deputy General Director Management Company Petropavlovsk.

The Executive Committee is responsible for the day-to-day management of the Company, recommending the strategy and direction of the Group to the Board and ensuring that the decisions approved by the Board are enacted. The Executive Committee meets on a regular basis.

Strategic and Technical Comittees
The Strategic Committee is chaired by Dr Alya Samokhvalova, Strategic Director whilst the Technical Committee is charied by Mr Martin Smith, Deputy Chief Executive. These Committees comprise of senior executives and operational management. Both Committees report to the Executive Committee, with reports on their work being made to the Board by the relevant Committee Chairman at each Board meeting.

Board and Committee membership and attendance during the year

Membership and attendance at meetings during the year is shown in the table below:

	Board [1]		Audit		Remuneration		Nomination		HSE		Risk	
	Scheduled											
Peter Hambro [2]	C	7/7	–	4	–	–	C	3/3	–	4	–	3
Pavel Maslovskiy [2],[3]	M	1/1	–	–	–	–	–	–	–	–	–	–
Sergey Ermolenko [2],[3],[5]	M	4/6	–	–	–	–	–	–	–	3	–	3
Graham Birch [4]	M	7/7	M	5/5	–	–	M	3/3	–	–	M	3/3
Dmitry Chekashkin [2]	M	7/7	–	3	–	–	–	–	–	1	–	2
Sir Malcolm Field [4]	M	7/7	C	4/5	M	3/3	M	3/3	–	–	–	–
Lord Guthrie [4],[6],[7]	M	6/7	–	–	M	0/3	–	–	M	4/4	C	3/3
David Humphreys [4]	M	7/7	–	–	M	3/3	–	–	M	4/4	M	3/3
Sir Roderic Lyne [4]	M	7/7	–	–	C	3/3	–	–	C	4/4	M	3/3
Andrey Maruta [2]	M	7/7	–	4	–	–	–	–	–	–	–	3
Charles McVeigh [4],[6]	M	7/7	M	5/5	–	–	M	3/3	–	–	–	–
Alya Samokhavlova [2]	M	7/7	–	–	–	–	–	–	M	4/4	–	3
Martin Smith [2],[5]	M	6/7	–	–	–	–	–	–	M	4/4	M	3/3

Key: C= Chairman, M= Member

(1) An additional eleven Board meetings were held during the year, principally relating to the Refinancing. Further Board and Board Committee meetings were held to deal with matters of a routine or administrative nature.

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

(3) Dr Maslovskiy was appointed as a Director and Chief Executive Officer on 5 November 2014. Mr Ermolenko retired as a Director and Chief Executive Officer on that date.

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

(5) Messrs Ermolenko and Smith were unable to attend one Board meeting as they were required to travel to one of the Group's mines in the Amur Region, Far East Russia at that time. During their absence, Mr Dmtry Chekashkin, the Chief Operating Officer, reported to the Board on operational matters. In addition Mr Ermolenko was unable to travel to the UK for a further Board meeting due to his operational commitments. This meeting was attended by Mr Martin Smith, Deputy Chief Executive, who works closely with Mr Ermolenko and by Mr Dmitry Chekashkin, Chief Operating Officer.

(6) Lord Guthrie and Mr McVeigh were unable to attend one Board meeting due to overseas business commitments.

(7) Lord Guthrie was unable to attend the formal Remuneration Committee meetings which were all convened at short notice as a consequence of the Refinancing. However Lord Guthrie participated in telephone conferences with Committee members and the Committee's advisors and was fully involved in the consideration of matters via email correspondence and discussion with the Committee Chairman and the Company Secretary.

Nomination Committee Report

Letter from the Nomination Committee Chairman

Dear Shareholder

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

Board changes and composition

The Nomination Committee was pleased to recommend to the Board the re-appointment of Dr Pavel Maslovskiy as a Director and as Chief Executive Officer with effect from 5 November 2014 following his retirement as a Senator-Member of the Federation Council (Upper House of the Russian Parliament) in October 2014. The Committee recognised that Dr Maslovskiy was critical to the success of the refinancing. Indeed following his return he played a key role in the Company's handling of the negotiations and in leading the management through a difficult period while sustaining operating performance.

Upon Dr Maslovskiy's appointment, Mr Sergey Ermolenko who had fulfilled the role of Chief Executive Officer since December 2011 returned to his former role as General Director of Management Company Petropavlovsk, retaining his membership of the Executive Committee. Mr Ermolenko is one of the founding members of the Company and his mining and operational experience are a significant asset to the Group.

As detailed in last year's report the Nomination Committee led the process on behalf of the Board, assisted by external consultants to find a replacement for Ms Rachel English who resigned from her position as a Non-Executive Director of the Company and as Audit Committee Chairman in October 2013. During this process Mr Robert Jenkins was identified as an excellent candidate with the requisite skills and experience for this role. Mr Jenkins is a chartered accountant, has a wealth of experience within Russia and, indeed, is fluent in Russian. He has acted as an advisor to the Board throughout the period of the Group's refinancing, providing valuable guidance and support to the Board during this challenging period. Members of the Nomination Committee have therefore had the benefit of working closely with Mr Jenkins during the year and were pleased to support and recommend his appointment to the Board. Following approval by the Board, Mr Jenkins will be appointed as a Director and as Audit Committee Chairman following the retirement of Sir Malcolm Field as a Director on 30 April 2015. Mr Jenkins' biographical details will be included in the Notice of Annual General Meeting to be held on 18 June 2015.

As advised in my introduction to the Corporate Governance Report, given the reduced size of the Company's market capitalisation relative to its previous levels, it was agreed that the size of the Board would be reduced to seven members following the completion of the Refinancing. The Nomination Committee considers that the proposed constitution of the new Board, as detailed on page 74, will be appropriate for the size of the Company and that collectively it will have the necessary skills and experience to implement the next stage of the Group's strategy following the successful delivery of the Refinancing.

The Nomination Committee has identified potential candidates, with the assistance of external consultants, for the two Non-Executive Director positions, and has proposed those candidates it considers have the requisite skills and experience to the representatives of the former holders of the Group's 4% Convertible Bonds for their consideration. As stated in the Corporate Governance Report this appointment process is ongoing and we continue to work with our external consultants and the Bondholder representatives in this respect.
An announcement will be made to the market as soon as appointments are approved.

Diversity statement

The Board is mindful, in the context of the current focus on the value of gender diversity, of the Company's approach to the diversity of its management and of the representation of women in senior roles. During 2014 we had one women, Dr Alya Samokhvalova on our Board in an Executive role and both Dr Samokhvalova and Anna-Karolina Subczynska, Group Head of Legal Services, are on the Group's Executive Committee. The Group also has a strong representation of women in professional roles at our offices in Moscow and London. Dr Samokhvalova whilst retiring from the Board as a Director with effect from 30 April 2015 will remain in her current role and will retain her membership of the Executive Committee.

During our search for three Non-Executive Directors the Nomination Committee has been focused on ensuring that the selected candidates have the correct skills and experience to complement our existing Directors, in order that the Board has the right balance in order to take the Group forward into the next stage of its strategy. The Board has not therefore set, and does not intend to set, a specific target for the number of female members of the Board as it wishes to continue to appoint the best candidate available to it for any particular role.

Next steps

Following the consitution of the proposed new Board, membership of the Committees will be reviewed including that of this Committee, full details of which will be reported in the 2015 Annual Report. I would like to thank my colleagues on the Committee, Sir Malcolm Field, Lord Guthrie and Dr Birch, who will all retire on 30 April 2015, for their support during the year.

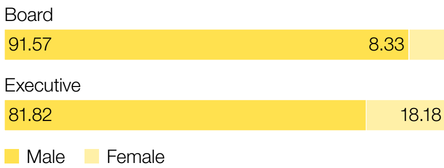
I look forward to reporting on the work of the Nomination Committee next year including the constitution of the new Board.

Peter Hambro
Chairman, Nomination Committee
28 April 2015

Additional activities during the year:

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

Gender diversity of the Board and Executive Committee (%)



Audit Committee Report

Letter from the Audit Committee Chairman

Dear Shareholder

I am pleased to introduce the report of the Audit Committee.

Notwithstanding the Group's strong operational performance during 2014, this was a challenging year for the Company with the Board's priority to ensure the successful execution of the Refinancing plan in order to deliver the platform to secure the Group's immediate future – the Refinancing was successfully completed on 18 March 2015. Thus, the Committee's principal focus during the year was to assist the Board in delivering the Refinancing plan whilst advising the Board on related going concern matters. The Committee also considered other significant issues and a description of these and how they were addressed is included in this Report as recommended by the UK Corporate Governance Code.

In addition this Report details the work undertaken by the Committee during the year to provide the requisite assurance to the Board that the Group maintains sound internal control systems, with a robust control framework, thus ensuring the integrity of its financial statements. The Committee is satisfied that the Group maintains appropriate internal controls. How we are able to reassure our Shareholders in this respect is set out in detail later in this Report in the description of the Committee's roles and responsibility and the actions taken over the course of the year.

The Committee continued to oversee the reporting process in order to make sure that the information provided to shareholders in this Annual Report taken as a whole is *'fair, balanced and understandable'* and allows assessment of the Company's performance, business model and strategy.

I am pleased to report that Mr Robert Jenkins, will be appointed as a Director and as Audit Committee Chairman with effect from 30 April 2015, upon my retirement. Robert, a chartered accountant with a wealth of experience within Russia, has acted as an advisor to both the Committee and the Board throughout the Refinancing, providing valuable guidance and wise counsel and I am delighted that we have found an individual of his calibre to act in this capacity. Details of the process of Robert's appointment can be found in the Nomination Committee Report on page 80.

The Committee has a positive and open relationship with management and the auditors and on behalf of the Committee, I thank them for their assistance and support during the year.

Sir Malcolm Field
Audit Committee Chairman
28 April 2015

Audit Committee Report continued

Members

The members of the Audit Committee during the year were:

Members	Number of meetings	Actual attendance
Sir Malcolm Field (Non-Executive Director and Committee Chairman)	5	4
Dr Graham Birch (Senior Non-Executive Director)	5	5
Mr Charles McVeigh (Non-Executive Director)	5	5

Governance

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

The Company's Chairman, the Chief Executive Officer, the Chief Financial Officer, the Internal Auditor and Group Head of Corporate Reporting and representatives of the external auditors are invited to attend Committee meetings. Deloitte LLP attended all Committee meetings in 2014. In addition, the Committee Chairman meets on a regular basis with the Company Chairman and the Chief Financial Officer to discuss any issues and with the lead partner of the external auditor on a regular basis and prior to each Committee meeting.

Mr Douglas King who had been the Company's Audit Partner since 2009, following the Company's merger with Aricom plc and its listing on the Main Market of the London Stock Exchange stepped down as Audit Partner following the audit for the year ended 31 December 2013, having completed 5 years in this role. He has been replaced by Mr Timothy Biggs. Mr Biggs was previously a senior figure at Deloitte, Australia for 13 years and is currently the leader of Deloitte's UK metals and mining sector.

The Committee usually meets on four occasions during the financial year to align with the Group's financial reporting calendar. However in 2014 the Committee met on five occasions in order to monitor the progress of the Refinancing and to monitor the Company's ability to continue as a going concern.

The Committee notes and, has received external training, on the new UK Corporate Governance Code and the new Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published in September 2014 by the Financial Reporting Council. As the New Code applies to accounting periods beginning on or after 1 October 2014, the Audit and Risk Committees will assess its implications for the Annual Report and Accounts in 2015 with a view to fully comply with the new disclosure requirements at year end 2015.

Summary of the Committee's responsibilities

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

- The integrity of the Group's financial statements and the significant reporting judgements contained in them;
- The appropriateness of the Group's relationship with the external auditors, including auditor independence, fees and provision of non-audit services;
- The effectiveness of the external audit process, making recommendations to the Board on the appointment of the external auditors; and
- The effectiveness of the Group's internal control and financial and tax risk management systems.

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 Group; and
- Have direct access to the resources of the Group as it may reasonably require including the external and internal auditors.

Activity during the year

The following matters were amongst those considered by the Committee during the year:

Financial statements and reports

- Reviewed the 2013 Annual Report and Accounts, the six months' Half Year report ended 30 June 2014 and the nine months' financial statements for the period ended 30 September 2014 before recommending their adoption by the Board. As part of these reviews the Committee received reports from the external auditor, reviewed accounting policies, estimates and judgements applied by management in preparing the relevant statements and the transparency and clarity of disclosure contained within them.
- In reviewing these financial statements the Committee took critical note of the status of the Refinancing and whether it was appropriate for the Company to continue to use the going concern basis for preparation of its accounts. Details of the work undertaken by the Committee in this respect are detailed on page 83 of this Annual Report.
- Considered whether the 2013 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and reported to the Board the Committee's conclusion as to this.
- Reviewed the proposed accounting basis for the Refinancing.

Risk management
- Considered the output from the Group's financial and tax review process undertaken to identify, evaluate and mitigate risks, advising the Risk Committee of changes in these risks as appropriate. See pages 26 to 37 of the Risks to Our Performance section which describes the Group's principal risks during the year and actions taken to mitigate against them.

Internal audit
- Evaluated the effectiveness and the scope of work to be undertaken by the Group Internal Auditor, which included audits to be performed at the Group's mining operations and the Group's offices in both Moscow and Blagoveshchensk. He presented his findings to the Audit Committee during the year in London from various assignments he had been requested to undertake by the Audit Committee. Audits undertaken during the year, amongst others, were audits of the Group's working capital management, procurement and supply processes and expense accounting.
- Reviewed management responses to audit reports issued during the year.

External auditor and non-audit work
- Reviewed, considered and agreed the scope and methodology of the audit work to be undertaken by the external auditor.
- Evaluated the independence and objectivity of the external auditor.
- Agreed the terms of engagement for the audit of the 2014 financial statements.

To date in 2015 the Committee has reviewed, amongst others, the following matters in relation to the 2014 financial statements:
- The going concern assumption;
- The classification of IRC as an 'asset held for sale';
- The carrying value of IRC;
- The Group's ore reserves estimates;
- The carrying value of the Group's mining assets including POX;
- The carrying value of the Group's Exploration and Evaluation assets; and
- The carrying value of the Group's stockpile.

The Committee has also advised the Board on whether the 2014 Annual Report and Accounts taken as a whole is fair, balanced and understandable and the Directors' statement in this respect is set out on page 107.

Significant issues considered by the Committee during 2014:

Issue	Committee action:	Conclusion:
The going concern assumption The key judgement for the Committee during 2014 related to the appropriateness of the basis of accounting. During the year the Group's assessment was highly sensitive to the: – Refinancing of the Group's outstanding US$310.5 million 4% Convertible Bonds due for repayment in 2015; and – Negotiation of certain covenant waivers or relaxation of covenants from certain of the Group's Senior Lenders and ICBC.	Given the importance of the execution of the Refinancing in order that the Group could continue as a going concern, the Committee continually monitored the status of the Refinancing and considered the appropriateness of the going concern assumption by: – Receiving regular updates from the Executive on the status of negotiations with the Senior Lenders on the covenant waivers and negotiations with the Bondholders; – Having access to Norton Rose Fulbright LLP, Bank of America Merrill Lynch and Deloitte as the Company's legal counsel, Sponsor and Reporting Accountant on the Refinancing respectively; and – Receiving and reviewing in detail the working capital reports produced by the Reporting Accountant.	When reviewing the half-yearly financial statements for the six months' ended 30 June 2014, the Committee considered the status of the Refinancing plan and noted that whilst there could be no guarantee that the Refinancing plan would be successfully executed there was a reasonable possibility that it would be and therefore the going concern basis of accounting remained appropriate.

2014 financial statements

In March 2015 the Group completed its Refinancing by issuing a new US$100 million Convertible Bond and carrying out a rights issue in order to redeem its outstanding US$310.5 million 4% Convertible Bonds due in 2015. As a result management's cash flow forecasts now show positive headroom for the Gold Division for the next 12 months. However, the cash flow forecasts for IRC show, in a reasonable worst case scenario, a potential shortfall during the period as a result of which an Emphasis of Matter paragraph was included in the IRC auditor's report. This potential shortfall is considered immaterial at the Petropavlovsk Group level and is substantially lower than the forecast positive headroom in the Gold Division.

Following its assessment of these factors and events the Committee has concluded that the going concern assumption continues to be appropriate for the Group.

Significant issues considered by the Committee in the context of the 2014 financial statements:
In addition to the going concern assumption, the Committee identified the issues below as significant in the context of the 2014 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:
Accounting for the dilution of the Group's interest in IRC *(see note 27 to the financial statements)* On 7 March 2013, Shareholders approved an approximately US$238 million investment in IRC Ltd, the Group's 63.13% Hong Kong Listed subsidiary by two new investors, General Nice and Minmetals Cheerglory (the 'Investors') (the 'Full Subscription'). The Full Subscription was due to complete by 31 December 2013, at which time the Group's shareholding would have reduced to the point that the Company would have lost control over IRC and the Group's remaining associate interest in IRC would have been revalued to fair value as required under International Financial Reporting Standard 3: Business combinations. As at 31 December 2014 the Full Subscription had not completed and the Company had an interest of 45.39% in IRC, which, in accordance with International Financial Reporting Standard 10, was still controlled by the Company and therefore accounted for as a subsidiary.	In order to judge whether IRC could be accounted for as an asset held for sale as at 31 December 2014 the Committee: – Considered and challenged management's, including IRC management's assessment that it was highly probable that the Group would no longer have control over IRC within 12 months. Management's assessment was evidenced by interest IRC has received from third parties to subscribe for or to place new equity. IRC has also advised that negotiations with the Investors regarding the completion of the Full Subscription are ongoing. – The Committee also sought advice from the Company's advisors on options available to the Company to reduce its interest in IRC and the likely success if these options were pursued.	Following its assessment the Committee concluded that it is appropriate to account for its interest in IRC as 'an asset held for sale'.
Carrying value of mining assets including POX *(see note 6 to the financial statements)* The value of the Group's mining assets is particularly sensitive to the forecast long-term gold price and also to the continued success of the Group's cost-reduction programme and exploration programme and the ultimate success of POX. The significant gold price decline in the first six months of 2013 which resulted in a revised long-term gold price gave rise to a total impairment charge of US$389.6m for 2013. However the Committee noted that a favourable long term change in any of the key assumptions may require a reversal of any impairments charges taken in previous accounting periods. As a result of the inclusion of significant GKZ reserves in the mine plan during 2014 each of the Group's principal mines now exhibits potential headroom under the Company's base case assumptions; with Albyn having headroom under all sensitivity scenarios used. The Committee therefore assessed whether a reversal of any impairment charges taken in previous accounting periods may be required for any of its assets.	The Committee has addressed this issue through: – Receiving reports from management outlining the basis for the assumptions used and challenging these assumptions. The long term mine models which form the basis of the long term mining plan, which is approved by the Board, are used by management to perform the impairment assessment. – Reviewing the report prepared by Venmyn Deloitte, mining experts, engaged by Deloitte to assist them in their assessment of this issue. As part of their review Venmyn Deloitte visited the Group's principal mines. Venmyn's report concluded that the POX assets have been well-maintained and are in a suitable condition to recommence the construction of POX in accordance with the Group's long-term mining plan. – Obtaining the external auditors' view in relation to the appropriateness of the approach and outcome of their review.	Taking the above into account the Committee is satisfied with the thoroughness of the approach and judgements taken. The review resulted in a post-tax reversal of the impairment charge for Albyn of US$23.1 million.

Issue	Committee action:	Conclusion:
Carrying value of exploration and evaluation (E&E) assets *(see notes 6 and 13 to the financial statements)* The judgements in relation to the carrying value and potential impairment of the Group's E&E assets include an assessment of the prospectivity of the exploration activities, future plans for each licence and their strategic importance to the future of the Group. The assessment of each asset's future prospectivity requires significant judgement. The Strategic Committee undertakes periodic detailed reviews of the exploration assets held by the Group and assesses them in different categories. Those assets that are considered as non-core projects which the Group has no intention of developing in the near future are subject to impairment.	The Committee has addressed this issue through: – Considering the exercise undertaken by the Strategic Committee which has been subject to an Executive Committee review and by asking questions of management. – Obtaining the external auditors' view in relation to management's assessment.	Taking these matters into account the Committee is satisfied with the thoroughness of the approach and judgements taken. The review of the carrying value of exploration and evaluation assets undertaken by management has resulted in an impairment of US$10 million in the carrying value of the Group's Guyana assets to nil.

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

- Reviewing Deloitte's fulfilment of the agreed audit plan for the year ending 31 December 2013, the quality of their audit findings and management's response;
- Reviewing Deloitte's proposed audit fee for the 2014 interim review and year-end audit and after consideration recommending these to the Board for approval:
- Noting the non-audit fees payable to Deloitte, having regard to the policy on the provision of non-audit services (see the following paragraphs under 'Non-audit services' for further discussion on this matter);
- Considering Deloitte's publication entitled 'Briefing on audit matters' published in June 2014 which explains the key concepts behind the Deloitte Audit methodology including audit objectives and materiality;
- Reviewing Deloitte's '2014 Audit Transparency Report' in respect of the year ended 31 May 2014. 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;
- Receiving confirmation from Deloitte that they remain independent and objective within the context of applicable professional standards; and
- Undertaking an evaluation of the external auditor to assess the effectiveness of Deloitte and of the external audit process itself.

As a result of the above actions, the Committee determined that Deloitte remains effective in their role as external auditors. The Committee has therefore recommended to the Board that Deloitte be appointed as external auditor for a further year and a resolution will be proposed to this effect at the 2015 Annual General Meeting.

Under the new provisions on audit tendering, the Committee will be required to tender the audit prior to 2019 but does not consider it necessary to undertake a tender process for the Group's external auditor at the current time. Until a decision is made to tender the audit the Committee will continue to evaluate the performance of Deloitte, as the Company's external auditor each year.

Non-audit services
In 2014 the Committee approved the appointment of Deloitte as reporting accountants on the Rights Issue which was an element of the Refinancing. The Refinancing was announced in principal on 8 December 2014 and following the issue of a Prospectus to Shareholders on 2 February 2015, the Rights Issue was approved by Shareholders at a general meeting held on 26 February 2015.

Deloitte's appointment as reporting accountants for the Rights Issue was in accordance with the Company's policy on the provision of audit and non-audit services – the external auditor is specifically permitted to undertake work on behalf of the Company as reporting accountant for listing particulars and prospectuses. A copy of the policy is on the Company's website or can obtained from the Company Secretary. The Committee approved the appointment of Deloitte on the basis that it was in accordance with the Company's policy and that, given their detailed knowledge of the Group, including IRC, of whom Deloitte Hong Kong is the external auditor, and the critical nature of this project, Deloitte would be the most appropriate firm to:

(i) prepare the requisite working capital report for the Group; and

(ii) undertake the work required to support the Board's statement on the 'no significant change' statement required to be included in the Prospectus.

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

A breakdown of audit and non-audit fees paid in 2014 is set out in note 7 on page 141 of this Report.

Audit Committee Report continued

Assurance – financial and internal controls and risk management
The Committee operates within the following assurance framework established by the Board. The Board has delegated authority to the Risk, HSE and Executive Committees in addition to the Audit Committee, details of which are as follows.

– The Board (which receives advice from the Audit, Risk, HSE and Executive Committees) has overall responsibility for the system of internal control and risk management in the Group. On behalf of the Board the Committee has considered the effectiveness of the Group's system of internal control. Following this review the Committee considers the internal controls of the Group to have operated effectively throughout 2014 and up to the date of this report. The Committee has also considered and reviewed the Group's financial risks and the mitigating action being taken to address these and has reported its findings to the Risk Committee. The system of controls is designed to manage, but may not eliminate, the risks of failure to achieve the Group's objectives. Oversight is provided by the Executive Committee, which meets regularly to review the results of the Group's operations.
– For IRC, Petropavlovsk operates controls over the inclusion of its financial data but places reliance upon the systems of internal control operating within IRC and the obligations upon IRC's Board relating to the effectiveness of its own systems.
– The Committee has reviewed the 2014 Annual Report and Accounts as a whole, and has confirmed to the Board that, in the Committee's opinion, 'it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.'

Internal controls
The framework for the Company's internal control system is documented in a Governance and Control Policy and Procedures Manual which has been approved by the Board and the Audit Committee.

Some key features of the internal control system, not detailed above, are:

– A defined management structure with clear accountabilities. There is a clear defined delegation of authorities, which covers all expenditure;
– Board approval of a detailed annual budget, with monthly re-forecasts being made subsequently;
– Formal review by the Executive Committee of detailed management accounts including variance analysis against the approved annual budget, a copy of which is provided to the Board following this review.
– 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 and a schedule of all of these transactions is presented to the Board for formal approval.

Risk management
The Company has adopted a formal risk management framework with the Board having ultimate responsibility for setting the Group's risk appetite and the Executive Committee having responsibility for on-going risk review and management. The Board has delegated authority to the Risk Committee. The Committee retains responsibility for reviewing financial risks and reporting its findings and recommendations to the Risk Committee. The 'Risks to Our Performance' section, which has been reviewed by the Audit Committee, summaries the risk management framework together with details of the principal risks of the Group and is on pages 26 to 37 of this Report.

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

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

Remuneration highlights
The Committee balanced the Company's strong operating performance in 2014 and successful refinancing against the further significant fall in the Company's share price, and decided as follows:

- No salary increases for Chairman/Executive Directors/Executive Committee in 2014;
- Base salaries frozen in 2015, the third year in succession, with the exception of the Chairman and CEO; Chairman's salary reinstated by the Committee to £655,000 – the Chairman's salary prior to his voluntary reduction on 1 June 2012 and incoming CEO's salary set at the same level;
- No increase in NED fees in 2014 for third year in succession;
- 18.5% Reduction in NED fees proposed with effect from 1 May 2015;
- Approving the Chairman's voluntary waiver of his 2014 bonus payment; recommending that no bonus be paid with the exception of the incoming CEO;
- Full year's bonus for 2014 paid to the incoming CEO in recognition of his critical role in the refinancing and the Group's management;
- No Long-Term Incentive Award granted during 2014, the third year in succession; and
- Incoming Directors to review remuneration policy, consulting Shareholders as appropriate.

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2014.

Last year's Directors' Remuneration Report received a vote in favour of 97.63% of votes cast at the 2014 Annual General Meeting. We appreciate the support given by the Shareholders.

Operationally the Company performed strongly in 2014, with the Executives successfully implementing the revised strategic plan to adjust to a new lower gold price environment and to deleverage the Group. However the Company's operational and exploration success was overshadowed by the need to refinance the Group's outstanding US$310.5 million Convertible Bonds. Negotiations with the Bondholders and Senior Lenders were particularly challenging, taking place against a backdrop of gold-price volatility and significant uncertainty in our key markets, and hence the completion of the refinancing was far slower than the Board had hoped. The refinancing, which has delivered the platform to secure the Company's immediate future, completed on 18 March 2015. Because of the uncertainties generated by the drawn-out refinancing negotiations the Committee decided that it would not be appropriate to undertake a full review of the Company's remuneration policy in 2014, as had been our previous intention.

The Company's remuneration policy was approved at the 2014 AGM and the Committee continues to operate within the parameters of the existing policy. With the retirement of some of the Directors and the proposed appointment of new Directors, the Remuneration Committee will be reconstituted. The incoming Committee will review the remuneration policy. Should it decide to make changes, the Committee would consult major Shareholders and then propose a new policy for approval in due course.

In addressing its decisions on remuneration, the Committee noted the Company's performance during 2014 and the exceptional efforts of the management team led by the Executive Chairman and the incoming CEO to bring the complex refinancing negotiations to a successful conclusion. However the Committee also had to take full account of the impact on Shareholders of the further significant fall in the Company's share price and the need for continuing financial stringency.

2014 bonus
The Committee judged that the Group's operational performance in terms of meeting gold production targets while achieving a significant reduction in total cash costs per ounce, weighed against annual bonus targets, would justify a bonus of nearly 50% of annual basic salary for the Company Chairman, Executive Directors and members of the Executive Committee. However, due to the fall in the Company's share price, the Chairman did not consider it appropriate for the Executives to accept the bonus.

The Committee appreciated the reasons for the Chairman's recommendation and decided accordingly that no bonus would be paid for 2014 to the Chairman, other Executive Directors and members of the Executive Committee (with the exception of the incoming Chief Executive Officer). The Committee is fully supportive of this important gesture.

The Committee gave separate consideration to the situation of Dr Pavel Maslovskiy. In 2014 the Board invited Dr Maslovskiy (who had ceased to be an Executive Director in December 2011) to return to his former position as Chief Executive Officer. He agreed to resume this position with effect from 5 November 2014. The return of Dr Maslovskiy was critical to the success of the refinancing. He played a key role in the Company's handling of the negotiations and in leading the management through a difficult period while sustaining operating performance. Without the skills, experience and authority which Dr Maslovskiy has deployed as Chief Executive Officer it might not have been possible to bring the refinancing to a successful conclusion. In light of the role played by Dr Maslovskiy and of the performance of the Group following his appointment, and bearing in mind also that, at the time of Dr Maslovskiy's recruitment, the Committee had not used the discretion in the Remuneration policy to pay a premium rate of salary and bonus to attract a candidate of his calibre, the Committee decided that it would be appropriate to pay him a 100% of salary bonus for 2014.

Details of the other key decisions taken by the Committee during the year are set out in the Annual Report on Remuneration on pages 95 to 103. The Committee hopes that these decisions will meet the approval of Shareholders.

I will be in attendance at the Company's 2015 AGM and will be pleased to discuss any remuneration matters with you. If you are unable to attend or have a query or comment prior to this date please email the Company Secretary, Amanda Whalley at aw@petropavlovsk.net and we will be pleased to address any issues.

Sir Roderic Lyne
Remuneration Committee Chairman

Contents of this report:
This report sets out details of the remuneration policy for Executive and Non-Executive Directors, describes the implementation of that policy and discloses the amounts paid relating to the year ended 31 December 2014.

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

The Directors' remuneration policy (set out on pages 88 to 94), which was approved by Shareholders on 17 June 2014 and took effect from that date, is included for ease of reference. The report below is as disclosed in the 2013 Directors' Remuneration Report save for a number of non-significant changes (as permitted under the terms of the approved policy), as follows:

– reference to financial years updated

– reward scenario charts updated for 2015 salaries.

The Statement from the Chairman of the Remuneration Committee (set out on page 87) and the Annual Report on Remuneration (set out on pages 95 to 103) will be subject to an advisory vote at the AGM.

Remuneration policy report

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

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

Information on how the Company intends to implement the policy for the current financial year is set out in the Statement of implementation of policy in 2015 on pages 99 and 100.

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

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

Remuneration element	Pension
Purpose and link to strategy	To provide market competitive pension benefits that are in line with the wider workforce whilst ensuring no undefined liability on the Company.
Operation	All Executive Directors receive contributions from the Company into a personal pension plan or similar savings vehicle with the exception of Messrs Hambro and Chekashkin and Dr Maslovskiy.
Maximum opportunity	A Company contribution of up 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	None.

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

Remuneration element	Long-term incentive plan ('LTIP')
Purpose and link to strategy	The long-term incentive arrangement reinforces effective risk management by aligning Executive Directors' interests with the long-term interests of Shareholders through regular awards of performance shares vesting only on the satisfaction of challenging long-term performance conditions.
Operation	Awards of performance shares are made which are based on performance over 3 years, with vesting on the third anniversary of grant subject to (i) the satisfaction of performance targets and (ii) continued service ('Performance Share Awards'). There is no opportunity to retest the performance conditions. The Committee, in its absolute discretion, may increase the number of shares that have vested by an amount equivalent to the amount of dividends paid on the vested shares from the date of grant until the date of vesting, calculated in accordance with the rules of the plan. In addition the Committee may grant deferred bonus awards, being an award of shares in lieu of annual bonus and conditional upon continuing service ('Deferred Bonus Awards'). It is the Committee's intention to grant Performance Share Awards over the term of the policy. Deferred Bonus Awards may be granted in relation to the 2015 bonus subject to the achievement of specific targets relating to the 2015 Annual Bonus Scheme. The Committee will consider the appropriateness of Deferred Bonus Awards for 2016 and 2017 at the relevant time.
Maximum opportunity	The maximum award is 100% of salary. However, in exceptional circumstances, such as to facilitate the recruitment of an external hire, this may be exceeded to a maximum of 200% of salary. Threshold performance will result in 30% vesting.

Performance metrics	The Committee will regularly review the performance conditions and targets to ensure that they are aligned to the Group's strategy and that they remain challenging. The relevant metrics and the respective weightings may vary each year based upon the Company's strategic priorities.

1. Notes to the Policy table

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

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

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

LTIP
The LTIP performance targets reflect the Company's strategic objectives and therefore the decisions which ultimately determine the success of the Group. The Committee intends to consult with Shareholders regarding the proposed targets for the next LTIP Award.

The Committee retains the discretion to adjust the performance targets and measures where it considers it appropriate to do so (for example, to reflect changes in the structure of the business and to assess performance on a fair and consistent basis from year to year).

2. Remuneration policy for other employees

A large percentage of the Group's employees are based at the Group's mines in the Amur Region in the Far East of Russia while corporate, administrative and support staff are based at the Group's offices in Blagoveshchensk, Moscow and London. The Board aims to ensure that employees are paid competitively within the region. Employees based at the Group's mines receive basic salary, shift and production related bonuses where applicable to their role, together with certain benefits.

3. Shareholding guidelines

There is no formal requirement for Directors to own shares in the Company. However Mr Hambro and Dr Maslovskiy as founding shareholders and having participated as underwriters in the Rights Issue have an interest, together with their associates, in 4.645% and 6.575% of the voting rights over ordinary shares in the Company respectively.

In addition Mr Dmitry Chekashkin acquired new Ordinary Shares through the purchase of Nil Paid rights in February 2015, investing a total of approximately £248,000 and all other Executive Directors and Non-Executive Directors, participated in the Rights Issue.

In the context of the above and given that there have been no LTIP Awards for 3 years the Committee does not consider that the introduction of shareholder guidelines at this time would be equitable.

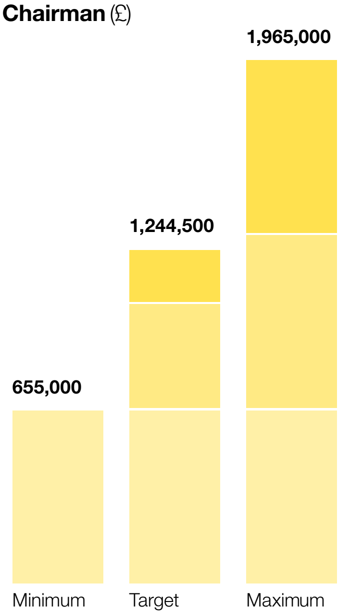
The Committee continues to monitor market trends with respect to minimum shareholding guidelines for the Company's Executive Directors, and will keep this matter under review.

4. Reward scenarios

The Company's policy results in a significant proportion of remuneration received by Executive Directors being dependent on Company performance. The graphs below illustrate how the total pay opportunities for the Executive Directors vary under three different performance scenarios: minimum, target and maximum. When reviewing the graphs, it should be noted that it has been prepared on the policy detailed above and ignores, for simplicity, the potential impact of future share price movements.

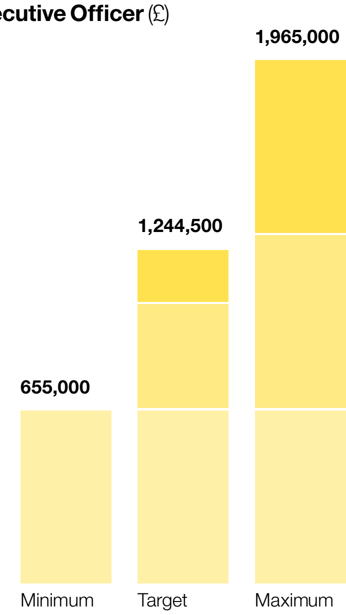
Potential value of proposed 2015 annual remuneration:

Executive Chairman (£)



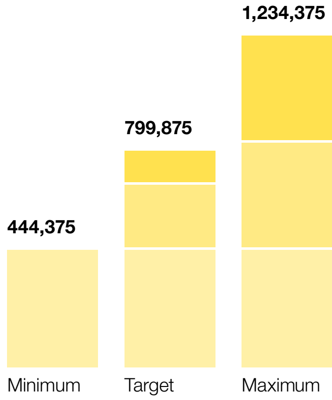
Fixed pay	100%	53%	33%
Variable pay	0%	47%	67%

Chief Executive Officer (£)



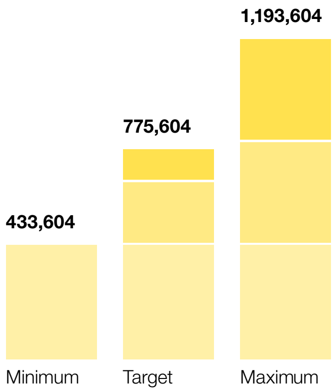
Fixed pay	100%	53%	33%
Variable pay	0%	47%	67%

Chief Financial Officer (£)



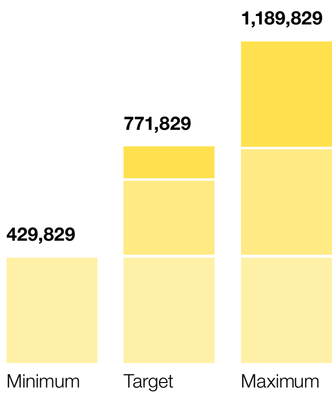
Fixed pay	100%	55%	36%
Variable pay	0%	45%	64%

Deputy Chief Executive (£)



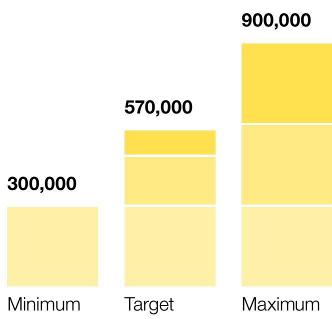
Fixed pay	100%	56%	36%
Variable pay	0%	44%	64%

Strategic Director (£)



Fixed pay	100%	56%	36%
Variable pay	0%	44%	64%

Chief Operating Officer (£)



Fixed pay	100%	53%	33%
Variable pay	0%	47%	67%

Key
- LTIP
- Annual bonus
- Salary, pension & benefits

Assumptions
Minimum = fixed pay only (base, salary, benefits and pension where applicable);

Target = 60% payable of the 2015 annual bonus and 30% vesting of the potential 2015 LTIP awards; and

Maximum = 100% payable of the 2015 annual bonus and 100% vesting of the potential 2015 LTIP awards.

Salary levels (on which other elements of the package are calculated) are based on levels as at 1 January 2015. The value of taxable benefits is based on the cost of supplying those benefits (as disclosed on page 88) for the year ending 31 December 2014. The pension value for Messrs Maruta and Smith and Dr Samokhvalova is set at 12.5% of basic salary.

For the purposes of the graphs, it has been assumed that LTIP Awards of 100% of salary are made to all Executive Directors in 2015.

5. Recruitment and promotion policy

The Committee's policy is to set pay for new Executive Directors within the existing remuneration policy in order to provide internal consistency. The Committee aims to ensure that the Company pays no more than is necessary to appoint individuals of an appropriate calibre.

Remuneration element	Policy
Base salary	Salary for a new hire (or on promotion to Executive Director) would be set at a level sufficient to attract the best candidate available to fill the role, taking into account the Group's position and strategy, market conditions and country of residence. The Committee would be prepared to set the salary of a new hire at a premium to those paid to the predecessor if this was necessary to attract and appoint a candidate with the requisite experience, seniority and calibre.
Benefits	Benefits will be set in accordance with the Company's remuneration policy. In addition, where necessary, the Committee may approve the payment of relocation expenses to facilitate recruitment. Flexibility is retained to pay for legal fees and other costs incurred by the individual in relation to his or her appointment.
Pensions	A defined contribution or cash supplement up to 12.5% of salary subject to any particular considerations for a recruit who will be principally based outside of the UK.
Annual bonus	The annual bonus will operate as outlined for current Executive Directors save that the Committee reserves the discretion to apply the maximum bonus payable of 200% of base salary for the appointment of an Executive Director if this is considered necessary to recruit the preferred candidate. Depending on the timing of the appointment and responsibilities of the appointee, it may be necessary to set different performance measures and targets initially.
Long-term incentives	LTIP awards will be granted in line with the policy outlined for the current Executive Directors. An award may (and would usually) be made upon appointment (subject to the Company not being prohibited from doing so). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant and further awards may also be considered. The maximum award for a new hire (or on promotion to Executive Director) is 200% of salary.
Buy-out awards	In the case of an external hire, the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company (and therefore Shareholders) to facilitate the buy-out of value forfeit on joining the Company. Such payments would take account of remuneration relinquished when leaving a former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Any such buy-out would not have a fair value higher than that of awards forfeited. The Committee will use the components of the Remuneration Policy when suitable but may also avail itself of Rule 9.4.2 of the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.

6. Details of service contracts

Executive Directors have service contracts with the Company which provide for a twelve month notice period, from both the Company and the Executive Director.

Termination and loss of office payments

If the Company terminates the employment of the Executive Director with immediate effect, in the absence of a breach of the service agreement by the Director, a payment in lieu of notice may be made. This may include base salary, pension and benefits. Benefits may also include, but are not limited to, legal fees.

Unvested LTIP awards
Outstanding awards under the LTIP will normally lapse if an executive leaves the Company before the vesting date. However, in 'good leaver' scenarios these may vest. 'Good leaver' scenarios include injury, ill-health, disability, retirement, death, the participants employing company or business being sold out of the Group, or any other reason that the Committee determines appropriate.

A 'good leaver's' unvested Performance Share Awards will vest on such date as determined by the Committee, subject to the achievement, or likely achievement, of any relevant performance condition, with a pro-rata reduction to reflect the proportion of the vesting period remaining.

A 'good leaver's' unvested Deferred Bonus Award will vest on such date as is determined by the Committee subject to a pro-rata reduction to reflect the proportion of the vesting period remaining.

Upon a change of control LTIP Awards will usually vest on the date of the change of control, subject to the achievement or likely achievement, of any relevant performance conditions with a pro-rata reduction to reflect the proportion of the vesting period remaining.

Annual bonus
Any annual bonus payment will be at the discretion of the Committee on an annual basis and the decision whether or not to award a bonus in full or in part will depend upon a number of factors including the circumstances of the Executive's departure and their contribution to the Group during the bonus period in question. Any bonus amount paid will typically be pro-rated for time in service to termination and will, subject to performance, be paid at the usual time.

Termination without notice
Executive Directors' service contracts may be terminated without notice for certain events, such as gross misconduct. No payment or compensation beyond sums accrued up to the date of termination will be made if such an event occurs.

Other arrangements
The Committee will retain discretion to approve new contractual arrangements with departing Executive Directors including settlement, confidentiality agreements, providing the provision of outplacement services, agreement of restrictive covenants and consultancy arrangements. The Committee will use its discretion in this respect sparingly and will only enter into such arrangements where the Committee believes that it is in the best interests of the Company and its Shareholders to do so.

7. Non-Executive Directors' Policy

Non-Executive Directors do not receive benefits from the Company and they are not eligible to receive pension contributions or participate in any bonus or incentive plan. Any reasonable expenses that they incur in the deliverance of their duties are reimbursed by the Company.

Details of the policy on Non-Executive Director fees are set out in the table below.

	Fees
Purpose and link to strategy	To attract and retain high performing independent Non-Executive Directors by ensuring that fees are competitive.
Operation	Paid monthly in arrears and reviewed annually by the Board, after recommendation from the Chairman. Fee increases, if applicable are normally effective from 1 January.
Maximum opportunity	There is no prescribed maximum annual increase although fees are determined by reference to time commitment and relevant benchmark market data. The Chairman of the Audit Committee, the Remuneration Committee and the Senior Independent Director may also receive an additional fee in recognition of the greater time commitment. The aggregate annual fees are limited to £1.0 million under the Company's Articles of Association.
Performance metrics	The performance of each Non-Executive Director is assessed as part of the Board evaluation process.

In recruiting a new Non-Executive Director, the Board will use the policy as set out in the table above.

Non-Executive Directors are appointed for an initial term of three years and have formal letters of appointment setting out their duties and responsibilities. The appointment can be terminated by paying in lieu of the notice period with such pay being limited to the Non-Executive Director's basic fees.

8. Differences in remuneration policy for Executive Directors compared to other employees

The Committee may consider the level of salary increases that have been made to the Group's employees when considering salary increases for the Executive Directors and members of the Executive Committee whilst taking into consideration the diverse nature of the roles, responsibilities, and geographic locations and economies of the Group's workforce. The Company does not actively consult with employees on executive remuneration.

Executive Committee members and selected employees in London, Moscow and Blagoveshchensk, also participate in the Company's annual bonus scheme. Executive Committee members and a number of senior employees, principally based within Russia participated in the 2011 LTIP Award grant. It is the intention that any future LTIP Awards will also be granted to senior employees of the Group in order that they have the opportunity to share in the Group's success, aligning their interest with those of the Executive Directors and Shareholders. LTIP performance conditions are the same for all participants, while award sizes vary accordingly to level of seniority.

The key difference between Executive Directors' and Executive Committee members' remuneration and that of other employees is that, overall, the remuneration policy for these groups is more heavily weighted towards variable pay.

The Company does not have an all-employee share ownership plan and does not consider that such a plan would be appropriate given that share ownership is not a common concept within Russia. The Board believes it more appropriate and beneficial to the general workforce to reward employees, below senior employee level, with bonus payments, based on the achievement of targets that are relevant to their positions and which they can influence.

Further information on the Group's employment policies is provided in the Environmental, Safety and Social Report on pages 24 and 25 of this Annual Report.

9. How the views of shareholders are taken into account

The Committee considers shareholder feedback and comment from corporate governance bodies received in relation to the AGM each year. The Committee will take these comments into consideration when reviewing remuneration policy. The Committee will consult with its major Shareholders on any material changes to remuneration.

10. Policy on external directorships

Executive Directors may accept an external non-executive appointment with the approval of the Board. Any fees earned are retained by the executive.

Annual report on remuneration

The following section provides details of how the Company's remuneration policy was implemented during the financial year ending 31 December 2014, and how it will be implemented in 2015.

1. The Remuneration Committee

Role of the Committee

The principal role of the Committee is to recommend to the Board the framework and policy for the remuneration of the Company's Chairman, the Executive Directors, any newly appointed Executive Director, the Company Secretary and members of the Executive Committee. In addition, and in consultation with the Chairman and Chief Executive Officer as appropriate, the Committee is responsible for reviewing the total individual remuneration package of each Executive Director and for reviewing annual proposals for the Executive Committee members. The Committee's terms of reference are available on the Company's website at www.petropavlovsk.net.

The activities of the Committee in 2014

The Committee held three formal meetings during the year under review in which certain matters relating to the Refinancing were also considered. The Committee members also had a number of conference calls and meetings with Kepler Associates and sought additional advice from Linklaters LLP, legal counsel, on certain specific matters. The Company Chairman attended parts of these meetings at the Committee Chairman's invitation to provide advice on specific questions raised by the Committee. The Company Secretary attended each meeting as Secretary to the Committee.

During the year the Committee:

- Considered the 2014 Bonus Objectives
- Agreed the remuneration arrangements for Dr Pavel Maslovskiy.

  The Board invited Dr Pavel Maslovskiy who had ceased to be an Executive Director in December 2011, to return to his former position, which he agreed to do with effect from 5 November 2014. The return of Dr Maslovskiy was considered as critical to the success of the Refinancing and the future success of the Company.

  Due to the financial situation of the Company at the time of his return, Dr Maslovskiy agreed to accept an annual basic salary of £555,000, £100,000 lower than his former salary. Given the successful conclusion of the Refinancing, in which Dr Maslovskiy played a central role, and his importance to the next stage of the Group's development the Committee decided that Dr Maslovskiy's salary should be restored to its former level of £655,000 with effect from 1 January 2015.

  The Committee sought independent advice from Kepler Associates and Linklaters LLP on the proposed remuneration arrangements for Dr Maslovskiy, ensuring full compliance with the remuneration policy.
- Sought independent advice from Kepler Associates on the introduction of a one-off 'turnaround' Long-Term Incentive Plan and certain contractual arrangements for Executive Directors to be implemented post-Refinancing. The Committee concluded that such arrangements were not appropriate.
- Reviewed and approved the 2013 Directors' Remuneration Report.

Certain decisions regarding the implementation of the Remuneration policy in 2014 taken by the Committee in late 2013 and early 2014 and detailed in the 2014 DRR were based on the Refinancing concluding during 2014. However negotiations with the Bondholders and Senior Lenders were particularly challenging and therefore took longer than had been anticipated. The Refinancing concluded in March 2015. Accordingly no Long-Term Incentive Awards were granted in 2014 and the Committee did not undertake a review of the remuneration policy and consult with Shareholders as had been its intent.

The review of the base salary of the Executive Directors and Executive Committee members, with the exception of the Chief Executive Officer, in respect of the annual salary review due 1 January 2015 was not undertaken until the Refinancing was completed. No increases were awarded.

Members of the Committee

Director	
Sir Roderic Lyne	Committee Chairman
Sir Malcolm Field	
Lord Charles Guthrie	
Dr David Humphreys	

2. External advisers

Kepler Associates, an independent firm of remuneration consultants appointed by the Committee after consultation with the Board, continued to act as the remuneration adviser to the Committee during the year. Kepler provides advice on remuneration for executives, analysis on all elements of the remuneration policy and regular market and best practice updates. Kepler is a signatory to the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at www.remunerationconsultantsgroup.com).

In 2014, Kepler provided independent advice on the potential implementation of a one-off 'turnaround' long-term incentive plan, proposed changes to contractual arrangements and support in drafting the Directors' remuneration report. Kepler reports directly to the Committee Chairman and provides no other services to the Company. Kepler's total fees for the provision of remuneration services to the Committee in 2014 were £32,230 on the basis of time and materials, excluding expenses and VAT. The Committee also sought advice on various contractual matters and compliance with the Remuneration policy from Linklaters LLP, legal counsel to the Committee. Linklaters also provided advice to the Independent Non-Executive Directors during the year but they do not provide any other services to the Company. Linklaters fees for their advice to the Committee during the year were £19,322 excluding VAT.

3. Shareholder voting at the 2014 AGM

The table below sets out the results of the vote on the Remuneration Report at the 2014 AGM:

	Directors' Remuneration Policy		Annual report on remuneration	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including Chairman's discretion)	93,375,175	98.57%	92,479,251	97.63%
Against	912,327	0.96%	1,809,303	1.91%
Total votes cast (excluding withheld votes but including third party discretion)	94,727,331		94,728,383	
Votes withheld	4,183,853		4,182,801	

Notes:

i) Third party proxies were appointed in respect of 439,829 shares, at the discretion of the third party proxy. As the voting intention was unknown these votes were not counted in the votes 'For' or 'Against.'

ii) A 'Vote withheld' is not a vote in law and is not counted in the calculation of the votes 'For' or 'Against' a resolution.

Directors' remuneration as a single figure (audited information)

The table below reports the total remuneration receivable in respect of qualifying services by each Director during the financial periods ended 31 December 2013 and 31 December 2014:

	Year	Salary & fees	Taxable benefit (i)	Annual bonus	Pension	Pay in lieu of notice (iv)	Single figure remuneration total £	Single figure remuneration (iv) US$
Executive Director								
Peter Hambro	2014	555,000	–	–	–	–	555,000	915,750
	2013	555,000	–	–	–	–	555,000	867,188
Sergey Ermolenko (ii)	2014	341,667	–	–	–	–	341,667	563,750
	2013	400,000	–	–	–	–	400,000	625,000
Pavel Maslovskiy (iii)	2014	80,938	–	555,000	–	–	635,938	1,049,297
	2013	–	–	–	–	–	–	–
Andrey Maruta	2014	395,000	22,788	–	49,375	–	467,163	770,819
	2013	395,000	3,281	50,000	49,375	–	497,656	777,588
Dmitry Chekashkin (iv)	2014	300,000	–	–	–	–	300,000	495,000
	2013	190,323	–	–	–	–	190,323	297,380
Alya Samokhvalova	2014	380,000	3,791	–	47,500	–	431,291	711,630
	2013	380,000	2,384	–	47,500	–	429,884	671,694
Martin Smith	2014	380,000	6,104	–	47,500	–	433,604	715,447
	2013	380,000	7,074	–	47,500	–	434,574	679,022
Total	2014	2,432,605	32,683	555,000	144,375	–	3,164,663	5,221,693
Total	2013	2,300,323	12,739	50,000	144,375	–	2,507,437	3,917,872
Non–Executive Director								
Graham Birch	2014	80,410	–	–	–	–	80,410	132,676
	2013	86,321	–	–	–	–	86,321	134,876
Sir Malcolm Field	2014	94,600	–	–	–	–	94,600	156,090
	2013	94,600	–	–	–	–	94,600	147,812
Lord Guthrie	2014	92,000	–	–	–	–	92,000	151,800
	2013	92,000	–	–	–	–	92,000	143,750
David Humphreys	2014	92,000	–	–	–	–	92,000	151,800
	2013	92,000	–	–	–	–	92,000	143,750
Sir Roderic Lyne	2014	92,000	–	–	–	–	92,000	151,800
	2013	92,000	–	–	–	–	92,000	143,750
Charles McVeigh	2014	92,000	–	–	–	–	92,000	151,800
	2013	92,000	–	–	–	–	92,000	143,750
Rachel English	2014	–	–	–	–	–	–	–
	2013	75,000	–	–	–	23,000	98,000	153,125
Total	2014	543,010	–	–	–	–	543,010	895,967
Total	2013	623,921	–	–	–	23,000	646,921	1,010,813

(i) Benefits are in respect of private medical insurance for the Director, their spouse and any children under the age of 18 years of age and pay in lieu of holiday entitlement.

(ii) Mr Ermolenko resigned as a Director and as Chief Executive Officer on 5 November 2014. Mr Ermolenko returned to his previous position as General Director of Management Company Petropavlovsk.

(iii) Dr Pavel Maslovskiy was appointed as a Director and as Chief Executive Officer on 5 November 2014. Dr Maslovskiy was awarded a bonus of £555,000 of which 50% is payable in cash and 50% in the form of a Deferred Share Award (see section 3 on page 98).

(iv) Mr Dmitry Chekashkin was appointed as a Director and as Chief Operating Officer on 13 May 2013. Mr Chekashkin's annual basic salary of £300,000 is pro-rated in the above table to reflect the salary earned during the period from 13 May 2013 to 31 December 2013.

(v) Ms Rachel English resigned as a Director of the Company on 24 October 2013 following her appointment as a director of African Barrick Gold plc. The Company paid Ms English 3 months' fee in lieu of notice in accordance with the terms of her letter of appointment.

(vi) Rates of exchange used: 2014: £0.61:US$1, 2013: £0.64:US$1 (average exchange rate throughout the year).

Directors' Remuneration Report continued

Additional disclosures

1. Salary and fees
Base salaries for the Executive Directors and Committee Chairman were unchanged during the year. Mr Hambro took a voluntary reduction in his salary from £655,000 to £555,000 with effect from 1 June 2012, this was not reinstated during the year.

Fees for the Non-Executive Directors were unchanged during the year. Dr Graham Birch, Senior Non-Executive Director took a voluntary reduction in his annual fee of 15% from £94,600 to £80,410 with effect from 1 June 2013, this was not reinstated during the year.

2. Pension
The Group makes contributions into a personal pension scheme on behalf of Andrey Maruta and Alya Samokhvalova. A rate of 12.5% of base salary (paid partly as a pension contribution and partly as a taxable cash supplement) is payable in return for a minimum personal contribution of 3% on pension payments.

For the period ended 31 December 2014, the Group's contribution was:

Director	Total contribution	Pension contribution	Taxable cash supplement
Andrey Maruta	£49,375	£38,948	£10,427
Alya Samokhvalova	£47,500	£38,887	£8,613

As a non UK-resident director Martin Smith received a contribution of 12.5% of base salary in respect of a pension entitlement which he is able to use to provide retirement provisions via a savings vehicle.

Messrs Hambro, Ermolenko and Chekashkin and Dr Maslovskiy received no payment from the Company in respect of pension entitlements.

3. Annual bonus in 2014

Objective	Target	Target	Stretch target	Stretch	Achieved	% of bonus payable
Total Group production	624,300oz	18%	640,000oz	30%	624,500oz	18%
Total Cash Costs	US$960oz	18%	<US$900oz	30%	US$865oz	30%
Net debt*						0%
Bonus earned						48%

** The internal net debt target was not achieved. Given that the Refinancing did not conclude until March 2015 it is not deemed appropriate to disclose this target due to commercial sensitivity.*

Looking at the overall performance of the Company, the Committee considered it appropriate that a bonus of 48% of salary should be offered to the Executive Directors of the Company based on the satisfaction of 2014 annual bonus performance targets, as detailed in the table above. However the Company Chairman declined this proposal. Due to the fall in the Company's share price he did not consider it appropriate for the Directors to accept the bonus and therefore no bonus was paid. No bonus was paid to the Executive Chairman and the Executive Directors with the exception of the Chief Executive Officer.

Bonus paid to Dr Pavel Maslovskiy, Chief Executive Officer
Dr Pavel Maslovskiy left the Group in December 2011 on his appointment to the Federation Council (the upper house of the Russian legislature). He was re-recruited by the Board with effect from 5 November 2014 because the Board considered it essential at that time to have as Chief Executive Officer someone of his unique experience, knowledge of the Group, calibre and seniority.

The return of Dr Maslovskiy was critical to the success of the Refinancing. On 8 December 2014, the Company announced that agreement had been reached with Bondholders representing approximately 62% of the outstanding US$310.5 million Convertible Bonds due 2015 to support a refinancing plan to secure the Group's immediate future. Dr Maslovskiy had played a critical role in discussions with these Bondholders following his appointment as Chief Executive Officer. He was also instrumental in the Group's negotiations with its Russian lenders, VTB and Sberbank, to ensure their in principle agreement to the waiver or relaxation of certain financial covenants prior to the year-end and without which the refinancing would have been unable to proceed. Dr Maslovskiy's bonus was principally based on the successful delivery and execution of the Refinancing of which the above steps were considered the most significant. In light of the role played by Dr Maslovskiy and of his leadership of the Company through a difficult period while ensuring that operational targets were achieved, the Committee approved a 100% of salary bonus for 2014. The Committee also took account of the fact that, in recruiting Dr Maslovskiy back to the Group, it had not exercised the discretion in the Remuneration Policy to set the salary of a new hire at a premium and to apply a higher rate of maximum bonus.

In accordance with the 2014 Annual Bonus Scheme Dr Maslovskiy will receive 50% of his annual bonus in the form of a Deferred Bonus Award. The number of shares awarded will be based on the market share price at the date of award, being 1 May 2015. The vesting of this award will be subject to Dr Maslovskiy's continued service for a 12 month period from the date of award unless he departs the Company as a 'good' leaver.

4. Long-term incentive plan (LTIP)

4.1. Awards lapsed during the year

Awards made under the Long-Term Incentive Plan on 11 May 2011 lapsed on 12 May 2014 as the performance conditions were not satisfied in part or in full.

4.2. Awards made during the year

As detailed in the 2014 DRR, the Committee proposed to make LTIP Awards in 2014, following the completion of the Refinancing. Given that the Refinancing did not complete until 18 March 2015, no awards were made to Executive Directors under the LTIP in 2014.

5. Payments to past directors

There were no payments made to past Directors during the period in respect of services provided to the Company as a Director.

6. External directorships

None of the Executive Directors earned remuneration from external non-executive appointments.

Statement of implementation of policy in 2015

1. Salary and fees

The review for salary increases effective 1 January 2015 was conducted by the Committee following the successful delivery of the Refinancing. The following decisions were made:

- No salary increases were awarded, recognising the low rate of inflation and the ongoing cost reduction programme in the lower gold price environment;
- Mr Hambro's salary was reinstated to that prior to his voluntary reduction on 1 June 2012 (£655,000); and
- Dr Maslovskiy's salary was reinstated to the level that he received prior to his resignation as a Director on 21 December 2011 (£655,000).

In addition the Board has agreed an 18.5% reduction of fees for the Non-Executive Directors from £92,000 to £75,000 with effect from 1 May 2015 to reflect the lower market capitalisation of the Company. The Chairman of the Audit Committee and the Senior Non-Executive Director will receive a payment of £10,000 and £7,500 per annum respectively in respect of these additional responsibilities.

Salaries and fees as at 1 January 2014 and 1 January 2015 are detailed in the table below:

Director	Position	Salary/fees January 2014	Salary/fees January 2015	Change
Peter Hambro	Chairman	£555,000	£655,000	18%(a)
Pavel Maslovskiy(b)	Chief Executive Officer	N/A	£655,000	N/A
Sergey Ermolenko(c)	Chief Executive Officer	£400,000	N/A	N/A
Andrey Maruta	Chief Financial Officer	£395,000	£395,000	0%
Dmitry Chekashkin	Chief Operating Officer	£300,000	£300,000	0%
Alya Samokhvalova	Strategic Director/Head of External Communications	£380,000	£380,000	0%
Martin Smith	Deputy Chief Executive	£380,000	£380,000	0%
Graham Birch(d)	Senior Independent Director	£80,410	£80,410	0%
Sir Malcolm Field(e)	Non-Executive Director	£94,600	£94,600	0%
Lord Guthrie	Non-Executive Director	£92,000	£92,000	0%
David Humphreys	Non-Executive Director	£92,000	£92,000	0%
Sir Roderic Lyne	Non-Executive Director	£92,000	£92,000	0%
Charles McVeigh	Non-Executive Director	£92,000	£92,000	0%

(a) The Committee considered it appropriate to reinstate Mr Hambro's salary to that paid prior to him taking a voluntary reduction in salary on 1 June 2012.

(b) Dr Pavel Maslovskiy was appointed as Chief Executive Officer and as a Director on 5 November 2014.

(c) Mr Sergey Ermolenko resigned as Chief Executive Officer and as a Director on 5 November 2014.

(d) Dr Graham Birch took a voluntary reduction of salary of 15% on 1 June 2013. It has not been reinstated.

(e) Sir Malcolm Field is Chairman of the Audit Committee.

2. Annual bonus

The Annual Bonus for 2015 will be subject to the following performance conditions:

Objective	Weighting
Production	30%
Cost based target	30%
Net debt as at 31 December 2015	10%
Replenishment of Reserves & Resources	30%

60% of bonus will be payable on the achievement of target with 100% payable on the achievement of the Stretch target. Bonuses will be payable on a straight line between Target and Stretch.

Details of the specific targets have not been disclosed due to their commercial sensitivity.

The specific targets will be detailed in the 2015 Directors' Remuneration Report unless the Committee considers that they continue to be commercially sensitive.

Summary of annual bonus rules:

i) In the event that any or all of the performance targets are satisfied either partially or in full the Committee will have absolute discretion as to whether to approve any bonus payment. The Committee will take into consideration the overall financial and operational performance of the Company during the year.

ii) 25% of any bonus payable will be paid in the form of a Deferred Share Award under the LTIP. The number of shares to be awarded will be based on the market share price at the date of award. The vesting of any such award will be subject to the continued service of the individual for a 12 month period from date of award except under certain 'good' leaver circumstances.

iii) The remaining 75% of any bonus will be payable in cash, subject to the normal statutory deductions.

iv) 'Clawback' may be applied at the discretion of the Committee, in the event of material misconduct, material misstatement of results, a calculation error and/or poor information used when calculating the reward outcome.

The maximum payable to any Executive Director shall be 100% of base salary.

3. Long-term incentive award

The Committee may make a Performance Share Award up to 100% of annual basic salary during 2015. The Committee will consult with the Company's major Shareholders if the proposed Awards are not based on the performance conditions proposed for the 2014 LTIP Awards which were not granted. These conditions were 50% of the Award to be based on a Reserves and Resources related performance condition and 50% on toal shareholder return relative to FTSE 350 mining peers.

4. Percentage change in remuneration of the Chief Executive Officer

The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for Executive Committee members, excluding the Company Chairman. Given that the Group operates in a number of diverse locations and its employees cover a wide remit of roles, the majority of whom are operational employees based at the Group's producing mines in the Far East Amur Region of Russia and also include geologists, technicians at the Group's laboratories and functional staff at the Group's offices in Blagoveshchensk, Moscow and London, the Committee believes that using the Executive Committee, excluding the Company Chairman, as a subset for the purposes of comparing CEO pay against wider employee pay provides a more useful and meaningful comparison than using pay data for all employees.

	CEO[a]			Executive Committee		
Item	2014 £	2013 £	Change %	2014 £	2013 £	Change %
Base salary[b]	422,604	400,000	5.7%	314,250	334,286	(6%)
Taxable benefits[c]	–	–	0	4,320	1,970	119%
Annual bonus	555,000	–	–	–	–	0

(a) Mr Sergey Ermolenko resigned as Chief Executive Officer and as a Director of the Company on 5 November 2014, returning to his previous position of General Director of Management Company Petropavlovsk. Dr Pavel Maslovskiy was appointed as Chief Executive Officer on 5 November 2014. Details of Dr Maslovskiy's 2014 bonus, of which 50% will be paid in the form of a Deferred Share Award are provided on pages 87 and 98.

(b) The reduction in Executive Committee remuneration is due to the change in membership of the Committee for the full year 2014 compared to the full year 2013.

(c) Due to the Refinancing in 2014, certain members of the Executive Committee were unable to take a significant proportion of their holiday entitlement and the Committee agreed to make a payment in lieu of a number of unused days' holidays. This is included in taxable benefits.

5. Relative importance of the spend on pay

The table below shows the movement in spend on staff costs between the 2014 and 2013 financial years, compared to dividends and profit before tax:

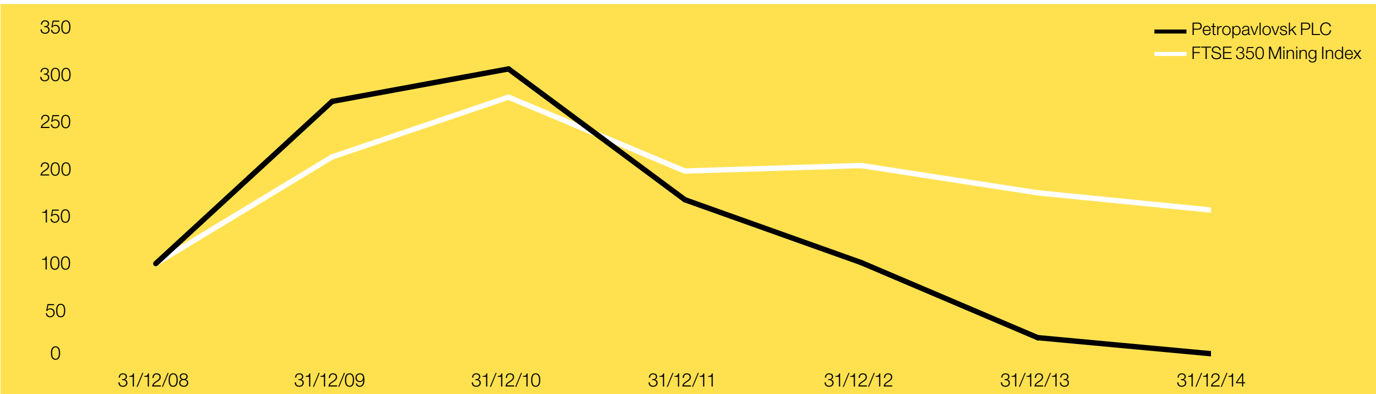
	2014 US$m	2013 US$m	% change
Staff costs – continuing operations	132	187	(29.5%)
Average number of staff – continuing operations	9,532	11,515	(17.22%)
Distributions to Shareholders:			
Dividends	–	5.8	
Entitlement to new shares with an attributable value of £0.05	–	14.7	
Total distributions to Shareholders	–	20.5	–

There were no dividends paid or declared during the year ended 31 December 2014 and no share buy-backs were undertaken.

Total shareholder return (unaudited information)

This report includes the graph below illustrating the Company's performance relative to the FTSE350 Mining Index, as shown below. The Board considers the FTSE350 Mining Index to be an appropriate index for comparison as the constituents represent the UK-listed mining sector.

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



6. Chief Executive Officer remuneration

	Year ended 31 December					
	2009	2010	2011	2012	2013	2014
CEO during the year [a]	Dr Maslovskiy		Mr Ermolenko			Mr Ermolenko / Dr Maslovskiy
Total remuneration £	1,138,339 [b]	1,025,991	1,569,190	661,000	400,000	977,605
Annual bonus (%)	70% [b]	45%	94.4%	45.5%	0%	100% [c]
LTIP vesting (%)	0%	0%	0%	0%	0%	0%

(a) Dr Pavel Maslovskiy resigned as Chief Executive Officer on 20 December 2011 and Mr Sergey Ermolenko was appointed as Chief Executive Officer on that date. Mr Ermolenko retired as Chief Executive Officer on 5 November 2014 and Dr Maslovskiy was appointed as Chief Executive Officer on that date.

(b) Dr Pavel Maslovskiy also received a special bonus payment of £225,000 during the year ended 31 December 2009 in recognition of the services provided in relation to the Company's acquisition of Aricom plc and to the admission of the Company's shares to trading on the Main Market of the London Stock Exchange plc. The special bonus payment of £225,000 is included in the total remuneration figure for 2009 shown above but is not included in the annual bonus percentage figures shown of 70%.

(c) Dr Pavel Maslovskiy was awarded a bonus of 100% of basic annual salary of which 50% is payable in cash and 50% in the form of a deferred bonus share award. Details of this bonus are provided on pages 87 and 98.

Directors' shares and share plan interests

Directors' share interests

The interests of the Directors who held office during the period from 1 January 2014 to 31 December 2014, and their connected persons, in the ordinary shares of the Company, together with details of changes to shareholdings between 1 January 2015 and 28 April 2015, are as set out in the table below.

Director	Shares held as at 1 January 2014	Shares held as at 31 December 2014	Shares held as at [c] 28 April 2015
Peter Hambro	6,773,933	6,773,933	152,280,861
Pavel Maslovskiy [a]	N/A	7,514,485	215,553,105
Sergey Ermolenko [b]	318,247	N/A	N/A
Andrey Maruta	22,135	22,135	33,925
Dmitry Chekashkin [b]	18,629	18,629	4,761,104
Alya Samokhvalova	18,629	18,629	311,121
Martin Smith	18,629	18,629	311,121
Graham Birch	15,780	15,780	263,526
Sir Malcolm Field	52,930	52,930	883,931
Lord Guthrie	–	–	–
David Humphreys	1,914	1,914	31,963
Sir Roderic Lyne	1,709	1,709	28,540
Charles McVeigh III	526	526	8,350

(a) Appointed to the Board on 5 November 2014.

(b) Resigned from the Board on 5 November 2014.

(c) Includes shares acquired in the Rights Issue completed in March 2015.

Long-term incentive plan

Executive Directors' interest in the LTIP
The individual interests of the Executive Directors which represent the maximum aggregate number of shares to which each individual could become entitled are as follows:

Director	Date of award	At 1 January 2014	Face value at grant	Lapsed during the year	At 31 December 2014	Normal vesting date
Peter Hambro	12 May 2011	147,083	£1,247,999	147,083	–	12 May 2014
Sergey Ermolenko	12 May 2011	17,433	£147,919	17,433	–	12 May 2014
Dmitry Chekashkin	12 May 2011	70,123	£594,993	70,123	–	12 May 2014
Andrey Maruta	12 May 2011	76,605	£650,001	76,605	–	12 May 2014
Alya Samokhvalova	12 May 2011	76,605	£650,001	76,605	–	12 May 2014
Martin Smith	12 May 2011	76,605	£650,001	76,605	–	12 May 2014

The above Awards were made in May 2011 (with a performance period of 12 May 2011 to 11 May 2014) based on a share price at date of grant of £8.485. Vesting of the LTIP Award was subject to the achievement of Total Shareholder Return performance conditions, full details of which are provided in the 2012 Directors' Remuneration Report. None of the performance conditions were satisfied.

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

Sir Roderic Lyne
Chairman, Remuneration Committee
28 April 2015

Directors' Report

For the year ended 31 December 2014

This report
The Corporate Governance Section on pages 74 to 79 and the Statement of Directors' Responsibilities on page 108 form part of this Directors' Report and are incorporated by reference.

Management report
The Directors' Report together with the Strategic Report on pages 4 to 69 forms the Management Report for the purposes of DTR4.1.5R.

1. Directors, Directors' appointment, conflicts of interest and Directors' indemnity

1.1. Directors
The current Directors of the Company at the date of this report and their biographical details appear on pages 72 and 73 and are incorporated into this report by reference. Subject to the following all of the Directors held office throughout the year ended 31 December 2014.

Mr Sergey Ermolenko retired and Dr Pavel Maslovskiy was appointed as a Director and as Chief Executive Officer on 5 November 2014. Upon his retirement from this position, Mr Ermolenko reverted to his previous role as General Director of Management Company Petropavlovsk, a Russian subsidiary of the Group.

1.2. Directors' appointment
With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006, and related legislation. Directors may be appointed by the Company by ordinary resolution or by the Board, on recommendation of the Nomination Committee. A Director appointed by the Board holds office only until the following annual general meeting and is then eligible for election by Shareholders. The Company may, in accordance with and subject to the provisions of the Companies Act 2006, by ordinary resolution of which special notice has been given remove any Director before the expiration of his or her term of office.

In accordance with the requirements of the UK Corporate Governance Code all eligible directors will stand for election at the 2015 AGM. Further information on the appointments to the Board is set out in the Corporate Governance Statement on page 75.

1.3. Conflicts of interest
Under the Companies Act 2006, Directors are subject to a statutory duty to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts of interest of directors where the articles of association contain a provision to that effect. The Company's Articles of Association afford the Directors such powers. In addition, the Directors will be able to impose limits or conditions when giving any authorisation, if they think this is appropriate.

The Board has an established procedure for the disclosure of interests and other related matters. Each Director must promptly disclose actual or potential conflicts and any changes to the Board which are noted at each Board meeting. The Board considers and authorises potential or actual conflicts as appropriate. Directors with a conflict do not participate in the discussion or vote on the matter in question. The Board has established an Independent Committee, comprising three Non-Executive Directors to consider and, if appropriate, approve certain related party matters.

The Directors have reviewed the interests declared by Directors which could conflict with those of the Company, and are satisfied that the Board's power to authorise potential conflicts is operating effectively. Related party transactions, which includes those in respect of any Director, are disclosed in note 26 to the financial statements on page 152.

1.4. Directors' indemnities
A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of the Directors in respect of liabilities incurred as a result of their office to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

1.5. Powers of Directors
Subject to the Company's Articles of Association, the prevailing legislation and any directions given by special resolution, the business and affairs of the Company will be managed by the Directors who may exercise all such powers of the Company. The powers of Directors are further described in the Schedule of Matters reserved for the Board, copies of which are available on the Company's website at www.petropavlovsk.net.

2. Other statutory disclosures

2.1. Dividends
The Directors do not recommend a final dividend in respect of the year ended 31 December 2014. Future decisions regarding the dividend will be based on a number of factors, including market conditions, distributable reserves, liquidity, operational performance and the impact of the ongoing cost reduction programme.

The payment of dividends by the Company is also restricted by covenants in the Petropavlovsk 2010 Limited 9% Guaranteed Convertible Bonds due 2020 of which the Company is the guarantor.

2.2. Employees
The Group maintains a policy of providing employees with information about the Company and regular meetings are held between management and employees to allow exchanges of information and ideas. Further information of the Group's consultation with employees and sharing of information is contained in the Sustainability section of this Annual Report.

The Group is committed to providing equal opportunity for individuals in all aspects of employment. The Group gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

Further details of the Group's equal opportunities policies are provided in the Sustainability section of this Annual Report on page 24 and are incorporated into this Report by reference.

2.3. Research and development
Companies within the Group carry out exploration, development and analysis work necessary to support their activities.

Further information is provided in the Operational Performance, the Exploration Report, Reserves and Resources and Future Development sections on pages 40 to 52 of the Strategic Report and are incorporated into this Directors' Report by reference.

2.4. Greenhouse gas emissions
The disclosures concerning greenhouse gas emissions required by law are included in the Strategic Report, on page 23.

2.5. Donations
No political donations were made and no political expenditure was incurred during the year (2013:£nil).

Details of the Group's charitable activities are set out in the Sustainability section on page 24 of this Annual Report.

2.6. Financial instruments and financial risk management
Details of the Group's financial risk management objectives and policies and exposure to risk are described in notes 18 and 31 to the financial statements and in the Risks to Our Performance section on pages 26 to 37 which form part of this Directors' Report.

3. Share capital and related matters

3.1. Share capital
The structure of the issued share capital of the Company at 31 December 2014 is set out in note 23 to the financial statements.

The Company has one class of Ordinary Share which carries no rights to fixed income.

3.2. Shareholders' rights
The rights attaching to the Ordinary Shares are governed by the Company's Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding. Subject to applicable law and the Articles of Association, holders of Ordinary Shares are entitled to receive all shareholder documents, including notice of any general meeting; attend, speak and exercise voting rights at general meetings, either in person or by proxy; and participate in any distribution of income or capital.

3.3. Restrictions on voting
In general there are no specific restrictions on the shareholder's ability to exercise their voting rights, save in situations where the Company is legally entitled to impose such restrictions (usually where amounts remain unpaid on the shares after request, or the shareholder is otherwise in default of an obligation to the Company). Currently, all issued Ordinary Shares are fully paid.

3.4. Deadlines for exercising voting rights
Votes are exercisable at a general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

3.5. Transfer of Ordinary Shares
The transfer of Ordinary Shares, is governed by the general provisions of the Company's Articles of Association and prevailing legislation. There are no restrictions on the transfer of the Ordinary Shares other than (i) as set out in the Articles of Association; (ii) certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and (iii) pursuant to the Listing Rules of the Financial Conduct Authority whereby certain Directors, officers and employees of the Company require approval to deal in the Ordinary Shares in accordance with the Company's share dealing rules.

New Articles of Association were adopted by Special Resolution of Shareholders of the Company on 26 February 2015. The Articles include a provision which allows the Board to impose such restrictions as the Directors may think necessary for the purpose of ensuring that no ordinary shares in the Company are acquired or held or transferred to any person in breach of Russian legislation, including any person having acquired (or who would as a result of any transfer acquire) Ordinary Shares or an interest in Ordinary Shares which, together with any other shares in which that person or members of their group is deemed to have an interest for the purposes of the Strategic Asset Laws, carry voting rights, exceeding 50 per cent. (or such lower number as the Board may determine in the context of the Strategic Asset Laws) of the total voting rights attributable to the issued ordinary shares without such acquisition having been approved, where such approval is required, pursuant to the Strategic Asset Laws.

3.6. Allotment of Ordinary Shares and disapplication of pre-emption rights
The Company has authority to issue Ordinary Shares under its Articles of Association and an ordinary resolution will be proposed at this year's Annual General Meeting to authorise Directors to allot Ordinary Shares up to a maximum aggregate nominal amount of £10,890,000. This represents the aggregate of approximately 33% of the nominal value of the Ordinary Shares in issue as at the date of this report. A special resolution is to be proposed which will disapply the statutory pre-emption rights for issues of Ordinary Shares for certain purposes.

Further details of the above proposals and resolutions will be contained in the Notice of Annual General Meeting.

3.7. Notifiable interests in share capital

At 31 December 2014 the following interests in voting rights over the issued share capital of the Company had been notified:

Shareholder	Number of Shares	% interest in shares
Mr Peter Hambro & Associates	6,773,933	3.43

As at 28 April 2015, the Company had received the following disclosures (which have not been subsequently changed) of major holdings of voting rights, pursuant to the requirements of Rule 5 of the Financial Conduct Authority Disclosure Rules and Transparency Rules:

Shareholder	No of Shares	% interest in ordinary shares	Interest in financial instruments with similar economic effect to Qualifying Financial Instruments [a]	% interest	Total number of voting rights	% of voting rights
Vailaski Holding Limited [b]	395,491,398	12.06	–	–	395,491,398	12.06
Sothic Capital European Opportunities Master Fund Limited	349,022,525	10.64	60,331,971	1.84	409,354,496	12.48
Prudential Plc Group of Companies	279,357,773	8.52	48,578,532	1.48	327,936,305	10.00
D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP DBMMA015 is the full name of the shareholder with respect of the indirect interest over 242,609,333 ordinary shares	242,609,333 [c]	7.40	177,549,012	5.40	420,158,345	12.82
Capeview Capital LLP						
– CapeView Recovery Fund	175,897,708	5.36	–	–	175,897,708	5.36
Ashmore Investment Limited	117,302,128	3.55	–	–	117,302,128	3.56
– ARIA Co Pty Ltd as trustee for the ARIA Alternative Assets Trust						
– Ashmore SICAV in respect of Ashmore SICAV Emerging Markets Corporate Debt Fund						
– Ashmore SICAV in respect of Ashmore SICAV Emerging Markets High Yield Corporate Debt Fund						
– City National Rochdale Fixed Income Opportunities Trust						
– Northrop Grumman Pension Master Trust						
Ashmore Investment Advisors Limited:						
– Ashmore Emerging Markets Corporate High Yield Fund Limited	35,700,648	1.08	–	–	35,700,648	1.08
– Ashmore Funds, a Massachusetts Business trust, on behalf of Ashmore Emerging Markets High Yield Corporate Debt Fund						
Total					153,002,776	4.64
Mr Andrey Vdovin through Vailaski Holding Limited	131,830,466	4.02	–	–	131,830,466	4.02

(a) D E Shaw & Co has an interest in financial instruments with economic effect to qualifying financial instruments related to contract for differences and the Group's 9% Convertible Bond due 2020. The interest in qualifying financial instructions with economic effect to qualifying instruments of Prudential plc group of companies and Sothic relate to the Group's 9% Convertible Bond due 2020 only.
(b) Each of Mr Peter Hambro, Chairman, Dr Maslovskiy, Chief Executive Officer and Mr Andrey Vdovin has call and voting rights and is subject to put rights in respect of one third of the ordinary shares held by Vailaski Holding Limited.
(c) Indirect holding.
(d) The issued share capital and the number of voting rights as at 31 December 2014 was 197,638,425.
(e) The issued share capital as at 28 April 2015 is 3,300,561,697 ordinary shares with 3,278,187,139 voting rights.

The following Directors and their connected persons have an interest in 3% or more of the voting rights of the Company as at 28 April 2015:

Shareholder	No of Shares	% interest in shares
Mr Peter Hambro & Associates	152,280,861	4.645
Dr Pavel Maslovskiy & Associates	215,553,105	6.575

The shares detailed in the above table include the voting rights that Mr Hambro and Dr Maslovskiy have in the ordinary shares held by Vailaski Holding Limited.

Details of Directors' interests in ordinary shares are included on page 102 of this Annual Report.

As at 28 April 2015, the Company has not received any notification that any other person holds 3% or more of the voting rights of the Company.

3.8. Amendment of Articles of Association

The Company's Articles of Association may be amended by special resolution of Shareholders. The Company's Articles of Association adopted by Shareholders on 26 February 2015 are available on the Company's website.

4. Provisions of change of control and post-balance sheet events

4.1. Provisions of change of control

A change of control of the Company following a takeover may cause a number of agreements to which the Company, or any of its subsidiaries, is party, such as commercial trading contracts, joint venture agreements and banking arrangements to take effect, alter or terminate. In the context of the potential impact on the Group, certain of these arrangements are considered to be significant.

The following significant agreements contain certain termination and other rights for the counterparties of the Group companies upon a change of control of the Company.

Pursuant to an up to US$340 million Credit Facility dated 13 December 2010 ('ICBC Loan') between Industrial and Commercial Bank of China Limited, ZAO Industrial and Commercial Bank of China (Moscow) as the lenders and LLC Kimkano-Sutarskiy Mining and Benefication Plant as borrower and the Company as guarantor, if any person or group of persons acting in concert gains control of the Company, the lenders may cancel the total commitments under the ICBC Loan and may accelerate all amounts outstanding under the ICBC Loan so that they become immediately due and payable.

Pursuant to the issue of US$100 million 9.00% guaranteed Convertible Bonds due 2020 ('the Bonds') issued by Petropavlovsk 2010 Limited ('the Issuer') on 18 March 2015 and guaranteed by the Company, upon a change of control over the Company constituting a Relevant Event (as defined in the Terms and Conditions of the Bonds), the exchange price of the shares shall be adjusted in accordance with the formula contained in the Terms and Conditions of the Bonds and the Bondholders have the right to require the redemption of the Bonds at their principal amount plus accrued and unpaid interest to the date of redemption.

4.2. Post-balance sheet events

There have been no material events from 31 December 2014 to the date of this report except as detailed below:

The Refinancing
On 2 February 2015, the Group launched the Refinancing plan which was completed on 18 March 2015 (note 34 to the financial statements).

Disposal of Koboldo
On 16 April 2015, the Group entered into a conditional SPA relating to the sale of its 95.7% interest in OJSC ZDP Koboldo (note 34 to the financial statements).

5. 2015 Annual General Meeting

5.1. Notice of General Meeting
A separate document, the Notice of Annual General Meeting 2015, convening the Annual General Meeting of the Company to be held on 18 June 2015 at 12 noon, will be sent or made available to all Shareholders and will contain an explanation of the resolutions to be proposed to that meeting. The Directors consider that each of the Resolutions is in the best interests of the Company and the Shareholders as a whole and recommend that Shareholders vote in favour of all of the Resolutions.

5.2. Electronic proxy voting
Registered Shareholders have the opportunity to submit their votes (or abstain) on all Resolutions proposed at the Annual General Meeting by means of an electronic voting facility operated by the Company's registrar, Capita Asset Services. This facility can be accessed by visiting www.capitashareportal.com. CREST members may appoint a proxy or proxies by using the CREST electronic appointment service.

5.3. Electronic copies of the annual report and financial statements and other publications
Copies of the 2014 Annual Report, the notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Group's website at www.petropavlovsk.net. Shareholders are encouraged to take advantage of the provisions allowing the Group to deliver notices of meetings and associated documentation electronically by email, or via the Group's investor relations webpages at www.petropavlovsk.net/en/investors.

6. Accountability and audit

6.1. Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 69 of this Annual Report. The financial position of the Group, its cash flows and liquidity position are described in the Chief Financial Officer's statement on pages 58 to 69 of this Annual Report. In addition, note 31 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As a separate listed group, IRC Limited ('IRC') is required to perform an assessment of their going concern position. In their 31 December 2014 annual report they have identified a material uncertainty in relation to their ability to continue to operate as a going concern, and accordingly their auditor, Deloitte Hong Kong, referenced this in an emphasis of matter in their audit report published on 25 March 2015. The main uncertainties in relation to the ability of IRC to continue to operate as a going concern are the timing of the commissioning of the K&S project and the substantial drop in the iron ore price.

As the Group has guaranteed the outstanding amounts IRC owes to ICBC, which outstanding loan principal was US$266.7 million at 31 December 2014, the assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is a key element of the Group's overall going concern assessment.

The Group performed an assessment of the forecast cash flows for its gold division. Following the successful completion of the Refinancing and receipt of covenant relaxation and waivers, the Group is satisfied that it has sufficient headroom under a reasonable downside scenario for the period to April 2016 to cover both its own cash flow requirements together with any potential deficit in IRC, subject to a mechanism for providing this funding being established. The Directors are confident that, should it be required, such a mechanism could be established.

Accordingly, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2014 Annual Report. Thus, they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

6.2. Information to the independent auditors
The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and that each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

6.3. Resolution to re-appoint independent auditors
Deloitte LLP has expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

7. Fair, balanced and understandable
The Directors consider this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

This report was approved by the Board of Directors of Petropavlovsk PLC and signed on its behalf by:

Amanda Whalley
Company Secretary
28 April 2015

Directors' Responsibilities Statement

For the year ended 31 December 2014

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

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 performance, business model and strategy.

This responsibility statement was approved by the board of directors on 28 April 2015 and is signed on its behalf by:

Peter Hambro
Chairman
28 April 2015

Andrey Maruta
Chief Financial Officer
28 April 2015

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2014

Opinion on financial statements of Petropavlovsk PLC
In our opinion:

– the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's and the parent company's loss for the year then ended;

– the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;

– the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 36 and the parent company Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern
As required by the Listing Rules we have reviewed the directors' statement on page 107 that the group is a going concern.

We confirm that:

– we have concluded that following the Refinancing completed on 18 March 2015 the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

– we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

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

For the year ended 31 December 2014

Our assessment of risks of material misstatement
Our risk assessment process continues throughout the audit and, as a result, we have identified an additional risk of material misstatement in the current year that had a significant effect on our audit strategy. This related to the continued classification of IRC Limited as an asset held for sale. We no longer include the risk on revenue. The remaining risks were assessed as continuing risks from our audit of the previous year's financial statements.

The procedures described in our response to each risk are not exhaustive and we have focused on those procedures that we consider address areas of judgement or subjectivity. As part of our audit of the Group, in addition to substantive tests, we also test the design and implementation of internal controls over financial reporting in each of the risk areas.

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk		How the scope of our audit responded to the risk
Going concern (note 2.1)	Following the significant decline in the gold price in 2013 and notwithstanding subsequent revision of the group's plans, in the absence of refinancing the group forecast breaches of certain covenants in its banking facilities at 31 December 2014. In addition, the US$310.5 million outstanding Convertible Bonds were due for repayment in March 2015 and the group did not have sufficient committed facilities or available funds to refinance this debt. Accordingly, going concern was identified as a significant audit risk. Subsequent to year end and after the commencement of our audit, the Directors successfully concluded a refinancing plan, under which the group received relaxation of covenants in its banking facilities and refinanced its Convertible Bonds before they fell due in March 2015. In March 2015, the directors of the group's separately listed subsidiary, IRC Limited, identified a material uncertainty in relation to IRC Limited's ability to continue as a going concern following the decline in the iron ore price, the volatility in the Russian Rouble/US Dollar exchange rate and delays in finalisation of full-scale operations at the K&S project. Petropavlovsk plc has guaranteed IRC Limited's facility with ICBC for the construction of the K&S project. At 31 December 2014, $266.7million was outstanding in relation to this facility. Due to the uncertainty at IRC Limited, there is a risk that this guarantee may be called if the potential shortfall in IRC Limited's forecast cash flows could not be mitigated by available funds elsewhere in the group. Under the guidelines set out by the UK Financial Reporting Council, each UK company is required to consider whether the going concern basis is the appropriate basis of preparation of the financial statements and include appropriate disclosure as to any significant considerations or uncertainties relevant to this assumption.	We have challenged the key assumptions in management's forecast cash flows for the next 12 months (base case and downside scenarios) by: – considering management's going concern paper which was presented to the Board, and the accompanying cash flow and covenant compliance forecasts for the going concern period. This paper included stress tests for a range of reasonably possible scenarios; – comparing the forecast gold and iron ore prices used to the latest set of broker forecasts; – using our mining specialists to analyse the production profile and recovery rates and assess the extent to which further oxide ore reserves have become available by interviewing the chief geologists at the mine sites and reviewing the reserve submissions; – comparing the mining and processing costs by reviewing the historical accuracy of budgeted costs and the extent to which the cost cutting measures had been executed during the year; – agreeing the group's committed debt facilities and hedging arrangements to supporting documentation; – discussing and reviewing management's executed refinancing plans, comparing to legal agreements and correspondence with lenders; – considering whether the material uncertainty identified by the directors of the group's separately listed subsidiary, IRC Limited, in relation to its going concern assumption could reasonably be mitigated by utilising headroom available from other group companies, subject to a mechanism for providing this funding being established, to avoid the guarantee given by Petropavlovsk plc to ICBC being called; and – considering whether the disclosures relating to going concern included in the financial statements are balanced, proportionate and clear.

Risk		How the scope of our audit responded to the risk
Accounting for IRC (notes 3.8, 3.9 and 27)	At 31 December 2012 management concluded that it was highly probable that the Group's ownership of IRC would be diluted below the subsidiary threshold to an associate within a year and so IRC was classified as an Asset Held for Sale. Following several delays in the completion of the original subscription agreement for IRC shares, only a portion of the shares were allotted to new investors and control was retained by the Group longer than expected, and remained classified as held for sale as at 31 December 2013. At the planning stage of the audit it was unclear whether the planned disposal would complete by year end. As the disposal did not complete, these delays, together with a decline in the IRC Limited share price and global iron ore prices meant significant judgement was required to evaluate whether it remains highly probable that the Group will dispose of its controlling interest in IRC within 12 months from 31 December 2014 and whether it should continue to be treated as held for sale as at that date. IRC represents 44% of the Group's net assets.	We: – considered management's view that control has been retained despite the dilution of the Group's interest in IRC to 45% as the previous voting patterns and disparate nature of the other IRC shareholders indicate that the Group still has the power to direct the relevant activities of IRC. We examined documentary evidence including voting records and minutes of board and shareholder meetings of IRC; – challenged management's assessment that IRC continues to meet the criteria for classification as an asset held for sale and as a discontinued operation, in particular whether the appropriate level of management remain committed to the disposal, and that the Group had commercially reasonable plans to dispose of its controlling interest within 12 months that are sufficiently far advanced for their completion to be considered highly probable; and – reviewed the underlying impairment models for IRCs most significant asset, the K&S mine, to consider whether the carrying amounts disclosed in the notes are reasonable, and assessed whether assets and liabilities held for sale have been appropriately measured at their fair value less cost to sell. Our approach to testing this impairment was the same as for the Group's other property, plant and equipment as set out below.
Impairment of property, plant and equipment (notes 3.3 and 6)	In the previous year, management recorded a significant impairment of the carrying value of the group's property, plant and equipment. These assets are valued at $1,143m (2013: $1,172m). Management performed impairment tests as at 31 December 2014 and no further impairments were required, with a reversal of impairment identified at one mine. These tests require significant judgement to be exercised, including the long term mining plans, discount rate and long term gold price.	We challenged management's significant assumptions used in the impairment testing for property, plant and equipment, and specifically the cash flow projections, by: – using our internal mining specialists who have extensive valuation experience to analyse management's long term mining plans which form the basis of their recoverable value models; – considered the work of management's experts in producing the long term mining plans and considered their experience and qualifications; – comparing the discount rates and the long term gold prices assumed to external forecasts; – assessing management's allocation of the capital costs of the POX project between the cash generating units, for the purposes of the impairment tests and whether there are any indicators that this project will not be completed; and – reviewing management's accounting paper with consideration of all of the assumptions supporting their conclusion. We also evaluated the sensitivity analysis performed by management and the adequacy and accuracy of disclosures relating to the impairment review.

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

For the year ended 31 December 2014

Risk		How the scope of our audit responded to the risk
Inventory (notes 2.19, 6 and 15)	Inventory is required to be carried at the lower of its cost and net realisable value. The measurement and valuation of deferred stripping assets, gold in circuit and stockpiles included in inventory, together with their net realisable values are complex, involve judgement and are based on assumptions about future mining activities, gold prices and processing costs.	We challenged management's significant assumptions used in their assessment of the measurement and valuation of inventory as described below by: – assessing the NRV of inventory by using our internal mining specialists to evaluate the processing cost assumptions and comparing the forecast gold price assumptions to external prices; – considering the detailed mine plans to verify whether stripping was correctly deferred and amortisation appropriately calculated. Furthermore, together with our mining specialists, we have visited each of the key mines and discussed with mine management their on-going stripping plans and reviewed the pit-by-pit cross sections to confirm that the stripping relates to ore bodies that are scheduled to be mined in the future; – attending inventory counts at each of the key operating locations; and – reviewing management's measurement and control procedures on gold-in-circuit and assessing the reasonableness of gold-in-circuit by reconciling gold production, sales and recovery together with our internal mining specialists.
Impairment of exploration and evaluation assets (notes 3.2, 6, and 13)	As a result of the consistently lower forecast gold price the carrying value of the group's remaining exploration and evaluation assets are at increased risk of impairment, as several of these may no longer be likely to be progressed to development. The assessment of each asset's future prospectivity requires significant judgement.	We: – performed detailed testing on the exploration and evaluation expenditure capitalised during the period and reviewed the licence conditions for any potential breaches; – held discussions with members of the Strategic Committee, and with local management responsible for directing exploration activities to corroborate the current activities and future intentions for the significant exploration projects; – challenged management to justify the size of the impairment recognised, where applicable; and – discussed the group's plans for specific projects with the Audit Committee. Where an asset has been impaired we have challenged management on the events that led to the impairment, specifically in relation to future gold prices and the judgements surrounding the recoverability of the carrying values.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 83.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Following the Group's forecast decrease in underlying EBITDA and net assets we reduced our materiality for the current year.
We determined materiality for the Group to be $13 million (2013: US$15 million), which, as in 2013, is 5% of the Group's underlying EBITDA and below 2% of equity.

We use underlying EBITDA because it is used by investors in mining companies as a key performance measure of cash generation and hence the Group's ability to provide returns to the providers of capital.

Our audit work at the operating locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality, and were not more than $9 million (2013: $11 million).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $260,000 (2013: $300,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

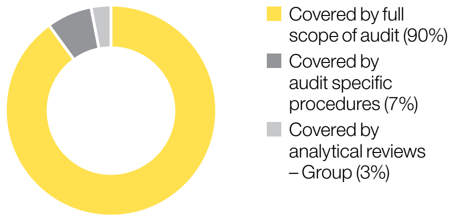
Similar to 2013, our Group audit scope focused primarily on the operating locations, being the four operating mines, the Koboldo alluvial operations, the Irgiredmet, Kapstroi, and AVT-Amur service entities, and twenty-six exploration assets. All of the operating mines, alluvial operations and service entities were subject to a full audit, whilst the exploration assets were subject to specified audit procedures, primarily testing of the capitalised spend on exploration activities and assessing for impairment. In addition, IRC Limited was subject to a full scope audit. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations.

These operating locations represent the principal business units within the Group's reportable segments and account for 90% of the Group's total assets, 92% of the Group's inventory, 99% of the Group's revenue and 97% of the Group's underlying EBITDA. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

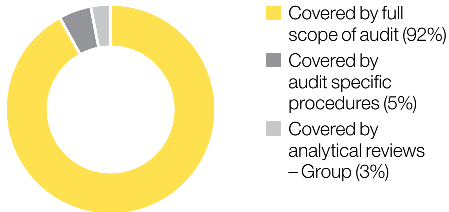
The Group audit team continued to follow a program of planned visits that was designed so that senior members of the Group team, including the Senior Statutory auditor, together with our independent Deloitte mining specialists, visited each of the operating gold mines and the Group's offices in Moscow and Blagoveshchensk where the Group audit scope was focused. Senior members of the Group team together with Deloitte mining specialists and members of the Deloitte Hong Kong component audit team visited the Group's iron ore development assets as part of their audit of IRC Limited, which is separately listed on the Hong Kong Exchange.

The senior members of the group audit team, including the Senior Statutory auditor, met regularly throughout the year with senior members of management in London, and the component auditors and local management teams based in Moscow and Hong Kong.

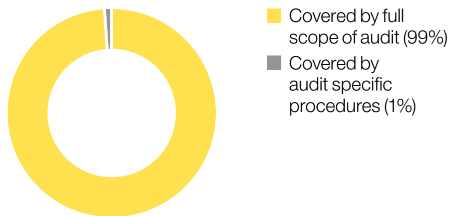
Total assets



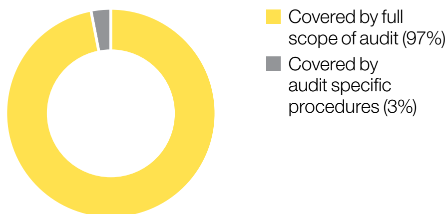
Inventory



Revenue



Underlying EBITDA



Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors' Remuneration Report. We have nothing to report arising from these matters or our review.

Corporate Governance Statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy Biggs, FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, United Kingdom
28 April 2015

Financial statements

In this section

Consolidated Income Statement

For the year ended 31 December 2014

	note	2014 US$'000	2013 US$'000
Continuing operations			
Group revenue	5	864,960	1,199,784
Operating expenses	6	(816,211)	(1,666,773)
		48,749	(466,989)
Share of results of associates		2,990	(711)
Operating profit/(loss)		51,739	(467,700)
Investment income	9	1,680	888
Interest expense	9	(67,705)	(75,268)
Other finance gains	9	–	19,365
Loss before taxation		(14,286)	(522,715)
Taxation	10	(167,871)	8,867
Loss for the period from continuing operations		(182,157)	(513,848)
Discontinued operations			
Loss for the period from discontinued operations	27	(165,535)	(199,375)
Loss for the period		(347,692)	(713,223)
Attributable to:			
Equity shareholders of Petropavlovsk PLC		(260,664)	(610,710)
Continuing operations		(184,296)	(509,044)
Discontinued operations		(76,368)	(101,666)
Non-controlling interests		(87,028)	(102,513)
Continuing operations		2,139	(4,804)
Discontinued operations		(89,167)	(97,709)
Loss per share			
Basic loss per share	11		
From continuing operations		(US$0.94)	(US$2.59)
From discontinued operations		(US$0.39)	(US$0.52)
		(US$1.33)	(US$3.11)
Diluted loss per share	11		
From continuing operations		(US$0.94)	(US$2.59)
From discontinued operations		(US$0.39)	(US$0.52)
		(US$1.33)	(US$3.11)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 US$'000	2013 US$'000
Loss for the period	(347,692)	(713,223)
Items that may be reclassified subsequently to profit or loss:		
Revaluation of available-for-sale investments	(10)	(130)
Exchange differences on translating foreign operations	(17,928)	(4,688)
Cash flow hedges:		
Fair value (losses)/gains	(14,239)	170,526
Tax thereon	2,848	(34,106)
Transfer to revenue	(42,328)	(107,687)
Tax thereon	8,466	21,537
Other comprehensive (loss)/income for the period net of tax	(63,191)	45,452
Total comprehensive loss for the period	(410,883)	(667,771)
Attributable to:		
Equity shareholders of Petropavlovsk PLC	(318,146)	(565,333)
Non-controlling interests	(92,737)	(102,438)
	(410,883)	(667,771)
Total comprehensive loss for the period attributable to equity shareholders of Petropavlovsk PLC arises from:		
Continuing operations	(239,120)	(462,816)
Discontinued operations	(79,026)	(102,517)
	(318,146)	(565,333)

Consolidated Balance Sheet

At 31 December 2014

	note	2014 US$'000	2013 US$'000
Assets			
Non-current assets			
Exploration and evaluation assets	13	97,533	116,008
Property, plant and equipment	14	1,143,032	1,171,962
Prepayments for property, plant and equipment		10,671	26,376
Investments in associates		1,231	7,938
Available-for-sale investments		112	124
Inventories	15	42,436	34,834
Other non-current assets		274	412
Deferred tax assets	21	40	346
		1,295,329	1,358,000
Current assets			
Inventories	15	206,498	259,915
Trade and other receivables	16	74,892	106,748
Derivative financial instruments	18	9,430	62,838
Cash and cash equivalents	17	48,080	170,595
		338,900	600,096
Assets of disposal groups classified as held for sale	27, 28	629,853	684,987
		968,753	1,285,083
Total assets		2,264,082	2,643,083
Liabilities			
Current liabilities			
Trade and other payables	19	(66,713)	(98,893)
Current income tax payable		(6,277)	(9,830)
Borrowings	20	(415,161)	(158,495)
		(488,151)	(267,218)
Liabilities of disposal groups associated with assets classified as held for sale	27, 28	(289,846)	(228,946)
		(777,997)	(496,164)
Net current assets		190,756	788,919
Non-current liabilities			
Borrowings	20	(562,643)	(960,517)
Deferred tax liabilities	21	(156,854)	(37,896)
Provision for close down and restoration costs	22	(21,217)	(36,169)
		(740,714)	(1,034,582)
Total liabilities		(1,518,711)	(1,530,746)
Net assets		745,371	1,112,337
Equity			
Share capital	23	3,041	3,041
Share premium		376,991	376,991
Merger reserve		–	19,265
Own shares	24	(8,925)	(8,925)
Hedging reserve		4,947	49,807
Convertible bond reserve	20	48,235	48,235
Share based payments reserve		3,283	11,096
Other reserves		(16,709)	(89)
Retained earnings		137,704	360,999
Equity attributable to the shareholders of Petropavlovsk PLC		548,567	860,420
Non-controlling interests [(a)]		196,804	251,917
Total equity		745,371	1,112,337

(a) IRC Limited ('IRC') is the only non-wholly owned subsidiary of the Group that has a material non-controlling interest (note 27).

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 28 April 2015 and signed on their behalf by:

Peter Hambro
Director

Andrey Maruta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

		Total attributable to equity holders of Petropavlovsk PLC											
	note	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Own shares US$'000	Convertible bond reserve US$'000	Share based payments reserve US$'000	Hedging reserve US$'000	Other reserves[a] US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2013		2,891	377,140	130,011	(10,196)	59,032	24,015	–	4,341	853,619	1,440,853	215,260	1,656,113
Total comprehensive income/(loss)		–	–	–	–	–	–	49,807	(4,430)	(610,710)	(565,333)	(102,438)	(667,771)
Loss for the period		–	–	–	–	–	–	–	–	(610,710)	(610,710)	(102,513)	(713,223)
Other comprehensive income/(loss)		–	–	–	–	–	–	49,807	(4,430)	–	45,377	75	45,452
Dividends	12	–	–	–	–	–	–	–	–	(5,774)	(5,774)	–	(5,774)
Bonus share issue		150	(149)	–	(1)	–	–	–	–	–	–	–	–
Share based payments		–	–	–	–	–	5,807	–	–	1,406	7,213	–	7,213
Vesting of awards within Petropavlovsk PLC LTIP		–	–	–	1,272	–	(18,726)	–	–	17,454	–	–	–
Issue of ordinary shares by subsidiary		–	–	–	–	–	–	–	–	(16,533)	(16,533)	142,619	126,086
Buy-back of convertible bonds		–	–	–	–	(10,797)	–	–	–	10,797	–	–	–
Other transaction with non- controlling interests		–	–	–	–	–	–	–	–	(6)	(6)	(3,524)	(3,530)
Transfer to retained earnings [b]		–	–	(110,746)	–	–	–	–	–	110,746	–	–	–
Balance at 1 January 2014		3,041	376,991	19,265	(8,925)	48,235	11,096	49,807	(89)	360,999	860,420	251,917	1,112,337
Total comprehensive loss		–	–	–	–	–	–	(44,860)	(12,622)	(260,664)	(318,146)	(92,737)	(410,883)
Loss for the period		–	–	–	–	–	–	–	–	(260,664)	(260,664)	(87,028)	(347,692)
Other comprehensive loss		–	–	–	–	–	–	(44,860)	(12,622)	–	(57,482)	(5,709)	(63,191)
Share based payments	29	–	–	–	–	–	(7,280)	–	–	12,153	4,873	–	4,873
Vesting of awards within IRC LTIP		–	–	–	–	–	(533)	–	–	533	–	–	–
Issue of ordinary shares by subsidiary		–	–	–	–	–	–	–	–	1,314	1,314	38,076	39,390
Other transaction with non- controlling interests		–	–	–	–	–	–	–	–	106	106	(452)	(346)
Transfer to retained earnings		–	–	(19,265) [b]	–	–	–	–	(3,998)	23,263	–	–	–
Balance at 31 December 2014		3,041	376,991	–	(8,925)	48,235	3,283	4,947	(16,709)	137,704	548,567	196,804	745,371

(a) Including translation reserve of US$(16.7) million (31 December 2013: US($4.1) million).

(b) Arises from an adjustment to the book value of the investment in the Company financial statements to reflect changes in the value of the Group's investment in IRC (note 27).

Consolidated Cash Flow Statement

For the year ended 31 December 2014

	note	2014 US$'000	2013 US$'000
Cash flows from operating activities			
Cash generated from operations	25	245,407	407,369
Interest paid		(77,615)	(85,479)
Income tax paid		(34,641)	(40,267)
Net cash from operating activities		133,151	281,623
Cash flows from investing activities			
Proceeds from disposal of subsidiaries, net of liabilities settled		2,699	49,210
Purchase of property, plant and equipment [(a)]		(164,223)	(301,299)
Exploration expenditure [(a)]		(34,726)	(47,281)
Proceeds from disposal of property, plant and equipment		5,141	2,588
Loans granted		(89)	(453)
Repayment of amounts loaned to other parties		586	2,746
Interest received		3,351	1,910
Net cash used in investing activities		(187,261)	(292,579)
Cash flows from financing activities			
Proceeds from issue of ordinary shares by IRC, net of transaction costs [(b)]		38,870	126,887
Proceeds from borrowings [(c)]		154,007	166,319
Repayments of borrowings [(c)]		(235,050)	(182,458)
Debt transaction costs paid in connection with ICBC facility		(467)	(1,031)
Restricted bank deposit placed in connection with ICBC facility		(21,250)	–
Refinancing costs	34	(7,760)	–
Dividends paid to shareholders of Petropavlovsk PLC		–	(5,774)
Dividends paid to non-controlling interests		(346)	(5)
Net cash (used in)/from financing activities		(71,996)	103,938
Net (decrease)/increase in cash and cash equivalents in the period		(126,106)	92,982
Effect of exchange rates on cash and cash equivalents		(33,092)	(7,507)
Cash and cash equivalents at beginning of period	17	170,595	159,226
Cash and cash equivalents re-classified as assets held for sale at beginning of the period	27	92,142	18,036
Cash and cash equivalents re-classified as assets held for sale at end of the period	27, 28	(55,459)	(92,142)
Cash and cash equivalents at end of period	17	48,080	170,595

(a) Including US$102.1 million related to discontinued operations (year ended 31 December 2013: US$111.7 million) (note 27).

(b) Note 27.

(c) Including US$154.0 million proceeds from borrowings (year ended 31 December 2013: US$131.8 million) and US$81.1 million repayments of borrowings (year ended 31 December 2013: US$51.5 million) related to discontinued operations (note 27).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. General information

Petropavlovsk PLC (the 'Company') is a company incorporated and registered in England and Wales. The address of the registered office is 11 Grosvenor Place, London SW1X 7HH.

2. Significant accounting policies

2.1. Basis of preparation and presentation

The consolidated financial statements of Petropavlovsk PLC and its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial investments, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 69 of this Annual Report. The financial position of the Group, its cash flows and liquidity position are described in the Chief Financial Officer's statement on pages 58 to 69 of this Annual Report. In addition, note 31 to these consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As a separate listed group, IRC is required to perform an assessment of their going concern position. In their 31 December 2014 annual report they have identified a material uncertainty in relation to their ability to continue to operate as a going concern, and accordingly their auditor, Deloitte Hong Kong, referenced this in an emphasis of matter in their audit report published on 25 March 2015. The main uncertainties in relation to the ability of IRC to continue to operate as a going concern are the timing of the commissioning of the K&S project and the substantial drop in the iron ore price.

As the Group has guaranteed the outstanding amounts IRC owes to ICBC, which outstanding loan principal was US$266.7 million as at 31 December 2014, the assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is a key element of the Group's overall going concern assessment.

The Group performed an assessment of the forecast cash flows for its gold division. Following the successful completion of the Refinancing and receipt of covenant relaxation and waivers, the Group is satisfied that it has sufficient headroom under a reasonable downside scenario for the period to April 2016 to cover both its own cash flow requirements together with any potential deficit in IRC, subject to a mechanism for providing this funding being established. The Directors are confident that, should it be required, such a mechanism could be established.

Accordingly, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2014 Annual Report and Accounts. Thus, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Changes in accounting policies and estimates

Exceptional items

The Group is no longer disclosing exceptional items separately. Comparative information for the year ended 31 December 2013 has been represented accordingly. In making this decision the Group has considered the following:

- this presentation enhances the simplicity of the disclosures in the consolidated financial statements;
- due to significance, nature and the expected infrequency of occurrence, exceptional items are usually accompanied by relevant detailed disclosures within the notes to the consolidated financial statements; and
- the classification of exceptional items is a non-GAAP measure.

Refer to note 3 for other areas of judgement in applying accounting policies and key sources of estimation uncertainty.

Ore reserves estimates

The Group's accounting policy is to depreciate mining assets using units of production ('UOP') method based on the volume of ore reserves.

In December 2013, a significant portion of the newly discovered reserves and resources was scheduled for processing in the Group's latest life of mine production plans as these resources are expected to be classified as Joint Ore Reserves Committee ('JORC') reserves or resources before they are processed. Following this inclusion, the Group amended its methodology for determining ore reserve estimates for calculating UOP depreciation to include, in addition to JORC reserves, resources estimated in accordance with both JORC and the internally used Russian Classification System, but only to the extent these are scheduled to be mined under the Group's life of mine plans. This amendment has been applied prospectively with effect from 1 January 2014. As a consequence of the above, depreciation charges for the year ended 31 December 2014 reduced by approximately US$50.8 million.

2.2. Adoption of new and revised standards and interpretations

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

New and revised Standards and Interpretations that were effective for annual periods beginning on or after 1 January 2014 and are set out below have been adopted:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- Amendments to IAS 36 'Impairment of Assets' – 'Recoverable Amount Disclosures for Non-Financial Assets'
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting'
- Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'
- Amendments to IFRS 10, IFRS 12 and IAS 27 'Separate Financial Statements: Investment Entities'
- IFRIC 21 'Levies'

2. Significant accounting policies continued

Aside from further disclosures included in note 27 following the adoption of IFRS 12 'Disclosure of Interests in Other Entities', adoption of the aforementioned standards, amendments, and interpretations have not had a significant impact on amounts reported, presentation or disclosure in these consolidated financial statements but may impact the accounting for future transactions and arrangements.

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2015 and not early adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

	Effective for annual periods beginning on or after
IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities.	1 January 2018
IFRS 14 'Regulatory Deferral Accounts' (a)	1 January 2016
IFRS 15 'Revenue from contracts with customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations.	1 January 2017
Amendments to IFRS 11 'Accounting for Acquisition of Interests in Joint Operations'	1 January 2016
Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016
Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants'	1 January 2016
Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans – Employee Contributions'	1 July 2014
Amendments to IAS 27 'Equity Method in Separate Financial Statements'	1 January 2016
Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	1 January 2016
Annual improvements to IFRSs: 2010-2012	1 July 2014
Annual improvements to IFRSs: 2011-2013	1 July 2014
Annual improvements to IFRSs: 2012-2014 Cycle	1 July 2016

(a) IFRS 14 is not applicable to the Group as the Group is not a first-time adopter of IFRSs.

The Directors do not expect that the adoption of the standards, amendments and interpretations listed above will have a material impact on the Group's consolidated financial statements in future reporting periods, except that IFRS 9 will impact both measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the impact of the aforementioned standards until a detailed review has been completed.

2.3. Basis of consolidation

These consolidated financial statements consist of the financial statements of the Company and its subsidiaries as at the balance sheet date. Subsidiaries are all entities over which the Group has control.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if, and only if, it has all of the following:

- power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary);
- exposure, or rights, to variable returns from its involvement with the subsidiary; and
- the ability to use its power over the subsidiary to affect its returns.

When the Group has less than a majority of the voting rights of a subsidiary or similar rights of a subsidiary, it considers all relevant facts and circumstances in assessing whether it has power over the subsidiary including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Company reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. The recognised income and expense are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.4. Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for each acquisition is measured at the aggregate of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Where applicable, the consideration transferred includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, on an acquisition-by-acquisition basis.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired are recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of recognised income and expenses.

2.5. Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.6. Acquisition of assets

Frequently, the acquisition of mining licences is effected through a non-operating corporate structure. As these structures do not represent a business, it is considered that the transactions do not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are recognised at cost.

Where the Group has full control but does not own 100% of the assets, then non-controlling interests are recognised at an equivalent amount based on the Group's cost, the assets continue to be carried at cost and changes in those values are recognised in equity.

2.7. Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are accounted for by using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Interests in joint ventures are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in joint ventures.

2.8. Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

2. Significant accounting policies continued

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for the impairment.

2.9. Non-current assets held for sale
Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

2.10. Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, which is the Group's presentation currency. The functional currency of the Company is the US Dollar.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations which have a functional currency other than US Dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and expenses and accumulated in equity, with share attributed to non-controlling interests as appropriate. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation.

2.11. Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of a subsidiary is included in non-current assets as a separate line item. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill on acquisition of an associate or a joint venture is included in the carrying amount of investment and is tested for impairment as part of the overall balance.

Goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose.

The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost is recognised immediately in the income statement.

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 2014	Average year ended 31 December 2014	As at 31 December 2013	Average year ended 31 December 2013
GB Pounds Sterling (GBP : US$)	0.64	0.61	0.60	0.64
Russian Rouble (RUR : US$)	56.26	38.44	32.73	31.85

2.12. Intangible assets

Exploration and evaluation expenditure and mineral rights acquired

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, are capitalised and recorded on the balance sheet within intangible assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling pre-feasibility and feasibility studies; and
- costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

Exploration and evaluation expenditure capitalised and mining rights acquired are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made.

Exploration and evaluation expenditure capitalised and mining rights within intangible assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

2.13. Property, plant and equipment

Mine development costs

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as ‘mine development costs’. Mine development costs are reclassified as ‘mining assets’ at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

Mine development costs are not depreciated, except for property plant and equipment used in the development of a mine. Such property, plant and equipment are depreciated on a straight-line basis based on estimated useful lives and depreciation is capitalised as part of mine development costs.

Mining assets

Mining assets are stated at cost less accumulated depreciation. Mining assets include the cost of acquiring and developing mining assets and mineral rights, buildings, vehicles, plant and machinery and other equipment located on mine sites and used in the mining operations.

Mining assets, except for those related to alluvial gold operations, where economic benefits from the asset are consumed in a pattern which is linked to the production level, are depreciated using a units of production method based on the volume of ore reserves. This results in a depreciation charge proportional to the depletion of reserves. The basis for determining ore reserve estimates is set out in note 3.1. Where the mining plan anticipates future capital expenditure to support the mining activity over the life of the mine, the depreciable amount is adjusted for such estimated future expenditure.

Certain property, plant and equipment within mining assets are depreciated based on estimated useful lives, if shorter than the remaining life of the mine or if such property, plant and equipment can be moved to another site subsequent to the mine closure.

Mining assets related to alluvial gold operations are depreciated on a straight-line basis based on estimated useful lives.

Non-mining assets

Non-mining assets are stated at cost less accumulated depreciation. Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

Capital construction in progress

Capital construction in progress is stated at cost. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. Capital construction in progress is not depreciated.

Depreciation

Property, plant and equipment are depreciated using a units of production method as set out above or on a straight-line basis based on estimated useful lives.

Residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively.

Estimated useful lives normally vary as set out below.

	Average life Number of years
Buildings	15-50
Plant and machinery	3-20
Vehicles	5-7
Office equipment	5-10
Computer equipment	3-5

2. Significant accounting policies continued

2.14. Impairment of non-financial assets
Property, plant and equipment and finite life intangible assets are reviewed by management for impairment if there is any indication that the carrying amount may not be recoverable. This applies to the Group's share of the assets held by the joint ventures as well as the assets held by the Group itself.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) or 'fair value less costs to sell'. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction. Future cash flows are based on:

- estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices (assuming the current market prices will revert to the Group's assessment of the long-term average price, generally over a period of up to five years); and
- future cash costs of production, capital expenditure, environment protection, rehabilitation and closure.

IAS 36 'Impairment of assets' includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related capital expenditure. When calculating 'value in use', it also requires that calculations should be based on exchange rates current at the time of the assessment.

For operations with a functional currency other than the US Dollar, the impairment review is undertaken in the relevant functional currency. These estimates are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36 'Impairment of assets'.

The discount rate applied is based upon a pre-tax discount rate that reflects current market assessments of the time value of money and the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

2.15. Deferred stripping costs
In open pit mining operations, removal of overburden and other waste materials, referred to as stripping, is required to obtain access to the ore body.

Stripping costs incurred during the development of the mine are capitalised as part of mine development costs and are subsequently depreciated over the life of a mine on a units of production basis.

Stripping costs incurred during the production phase of a mine are deferred as part of cost of inventory and are written off to the income statement in the period over which economic benefits related to the stripping activity are realised where this is the most appropriate basis for matching the costs against the related economic benefits.

Where, during the production phase, further development of the mine requires a phase of unusually high overburden removal activity that is similar in nature to pre-production mine development, such stripping costs are considered in a manner consistent with stripping costs incurred during the development of the mine before the commercial production commences.

In gold alluvial operations, stripping activity is sometimes undertaken in preparation for the next season. Stripping costs are then deferred as part of cost of inventory and are written off to the income statement in the following year to match related production.

2.16. Provisions for close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or constructive obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or unwinding of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance sheet date. All other costs of continuous rehabilitation are charged to the income statement as incurred.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy set out above.

2.17. Financial instruments

Financial instruments recognised in the balance sheet include cash and cash equivalents, other investments, trade and other receivables, borrowings, derivatives, and trade and other payables.

Financial instruments are initially measured at fair value when the Group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit or loss. The subsequent measurement of financial instruments is dealt with below.

Financial assets

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised at trade-date, the date on which the Group commits to purchase the asset. The Group does not hold any financial assets which meet the definition of 'held-to-maturity investments'.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included within non-current assets unless the investment matures or management intends to dispose of them within 12 months of the balance sheet date. Available-for-sale financial assets are initially measured at cost and subsequently carried at fair value. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of other reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to the income statement.

2. Significant accounting policies continued

Loans and receivables
Loans and receivables are non-derivative financial assets fixed or determinable payments that are not quoted on an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method
The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Cash and cash equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and are measured at cost which is deemed to be fair value as they have a short-term maturity.

Trade receivables
Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Impairment of trade receivables is established when there is objective evidence as a result of a loss event that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is recognised in the income statement.

Other investments
Listed investments and unlisted equity investments, other than investments in subsidiaries, joint ventures and associates, are classified as available-for-sale financial assets and subsequently measured at fair value. Fair values for unlisted equity investments are estimated using methods reflecting the economic circumstances of the investee. Equity investments for which fair value cannot be measured reliably are recognised at cost less impairment. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to the income statement as 'gains and losses from investment securities'.

Financial liabilities
Financial liabilities, other than derivatives, are measured on initial recognition at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative financial instruments
In accordance with IAS 39 the fair value of all derivatives is separately recorded on the balance sheet. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Derivatives embedded in other financial instruments or non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host-contract and the host contract is not carried at fair value. Embedded derivatives are recognised at fair value at inception. Any change to the fair value of the embedded derivatives is recognised in operating profit within the income statement. Embedded derivatives which are settled net are disclosed in line with the maturity of their host contracts.

The fair value of embedded derivatives is determined by using market prices where available. In other cases, fair value will be calculated using quotations from independent financial institutions, or by using appropriate valuation techniques.

Hedge accounting
The Group designates certain derivative financial instruments as hedging relationships. For the purposes of hedge accounting, hedging relationships may be of three types:

- fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability;
- cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; and
- hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity.

Currently the Group only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The fair value gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is reclassified to profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue cost.

Impairment of financial assets
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed.

2.18. Provisions
Provisions are recognised when the Group has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

2.19. Inventories
Inventories include the following major categories:

- stores and spares represent raw materials consumed in the production process as well as spare parts and other maintenance supplies.
- construction materials represent materials for use in capital construction and mine development.
- ore in stockpiles represent material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore in stockpiles is valued at the average cost per tonne of mining and stockpiling the ore. Quantities of ore in stockpiles ore are assessed through surveys and assays. Ore in stockpiles is classified between current and non-current inventory based on the expected processing schedule in accordance with the Group's mining plan.
- work in progress inventory primarily 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 2.15.

Inventories are valued at the lower of cost and net realisable value, with cost being determined primarily on a weighted average cost basis.

Provisions are recorded to reduce ore in stockpiles, work in process and finished goods inventory to net realisable value where the net realisable value is lower than relevant inventory cost at the balance sheet date. Net realisable value is determined with reference to relevant market prices less estimated costs to complete production and bring the inventory into its saleable form. Provisions are also recorded to reduce mine operating supplies to net realisable value, which is generally determined with reference to salvage or scrap value, when it is determined that the supplies are obsolete. Provisions are reversed to reflect subsequent recoveries in net realisable value where the inventory is still on hand at the balance sheet date.

2. Significant accounting policies continued

2.20. Leases
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.21. Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable, stated at the invoiced value net of discounts and value added tax.

Sales of gold and silver
The majority of the Group's revenue is derived from the sale of refined gold and silver, the latter being a by-product of gold production. Revenue from the sale of gold and silver is recognised when:

- the risks and rewards of ownership are transferred to the buyer;
- the Group retains neither a continuing involvement nor control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the Group.

Other revenue
Other revenue is recognised as follows:

- revenue from service contracts is recognised when the services are rendered;
- revenue from sales of goods is recognised when the goods are delivered to the buyer and the risks and benefits associated with ownership are transferred to the buyer; and
- rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2.22. Borrowing costs
Borrowing costs are generally expensed as incurred except where they relate to the financing of acquisition, construction or development of qualifying assets, which are mining projects under development that necessarily take a substantial period of time to get prepared for their intended use. Such borrowing costs are capitalised and added to mine development costs of the mining project when the decision is made to proceed with the development of the project and until such time when the project is substantially ready for its intended use (which is when commercial production is ready to commence) 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.

2.23. Taxation
Tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case, the tax is also recognised in the statement of comprehensive income or directly in equity, respectively.

Current tax is the tax expected to be payable on the taxable income for the year calculated using rates that have been enacted or substantively enacted by the balance sheet date. It includes adjustments for tax expected to be payable or recoverable in respect of previous periods.

Full provision is made for deferred taxation on all temporary differences existing at the balance sheet date with certain limited exceptions. Temporary differences are the difference between the carrying value of an asset or liability and its tax base. The main exceptions to this principle are as follows:

- tax payable on the future remittance of the past earnings of subsidiaries, associates and jointly controlled entities is provided for except where the Company is able to control the remittance of profits and it is probable that there will be no remittance in the foreseeable future;
- deferred tax is not provided on the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination, such as on the recognition of a provision for close down and restoration costs and the related asset or on the inception of finance lease; and
- deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is provided in respect of fair value adjustments on acquisitions. These adjustments may relate to assets such as mining rights that, in general, are not eligible for income tax allowances. In such cases, the provision for deferred tax is based on the difference between the carrying value of the asset and its nil income tax base.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates that have been enacted, or substantively enacted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.24. Share-based payments
The Group has a number of equity-settled share-based payment arrangements in place, details of which are set out in note 29.

Equity-settled share-based payment awards are measured at fair value at the grant date. The fair values determined at the grant date are recognised as an expense on a straight-line basis over the expected vesting period with a corresponding adjustment to the share-based payments reserve within equity.

The fair values of equity-settled share-based payment awards are determined at the dates of grant using a Black Scholes model for those awards vesting based on operating performance conditions and a Monte Carlo model for those awards vesting based on market related performance conditions.

The estimate of the number of the awards likely to vest is reviewed at each balance sheet date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. The impact of the revision of the original estimates, if any, is recognised in the income statement so that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve within equity.

2.25. Employee Benefit Trust
Certain Ordinary Shares underlying the share-based payment awards granted are held by the Employee Benefit Trust (the 'EBT'). Details of employee benefit trust arrangements are set out in note 29. The carrying value of shares held by the employee benefit trust are recorded as treasury shares, shown as a deduction to shareholders' equity.

3. Areas of judgement in applying accounting policies and key sources of estimation uncertainty

When preparing the consolidated financial statements in accordance with the accounting policies as set out in note 2, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances and previous experience. Actual results may differ from these estimates under different assumptions and conditions.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are set out below.

3.1. Ore reserve estimates
The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) and the internally used Russian Classification System, adjusted to conform with the mining activity to be undertaken under the Group mining plan. Both the JORC Code and the Russian Classification System require the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

3. Areas of judgement in applying accounting policies and key sources of estimation uncertainty continued

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method (note 14), impairment charges (note 6) and for forecasting the timing of the payment of close down and restoration costs (note 22). Also, for the purposes of impairment reviews and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or economic assumptions used to estimate reserves change. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values due to changes in estimated future cash flows (note 6);
- depreciation charged in the income statement where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine;
- provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs (note 22); and
- carrying value of deferred tax assets and liabilities (note 21) where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

3.2. Exploration and evaluation costs
The Group's accounting policy for exploration and evaluation expenditure results in exploration and evaluation expenditure being capitalised for those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure being capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to the income statement. Details of exploration and evaluation assets are set out in note 13.

3.3. Impairment and impairment reversals
The Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets are impaired.
The recoverable amount of an asset, or CGU, is measured as the higher of fair value less costs to sell and value in use.

Management necessarily apply their judgement in allocating assets to CGUs as well as in making assumptions to be applied within the value in use calculation. The key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out in note 6.

Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets. The impairment assessments are sensitive to changes in commodity prices and discount rates. Changes to these assumptions would result in changes to impairment and/or impairment reversal conclusions, which could have a significant effect on the consolidated financial statements. Details of impairment and/or impairment reversal are set out in note 6.

3.4. Deferred stripping costs

The calculation of deferred stripping costs requires the use of estimates to assess the improved access to the ore to be mined in future periods. Changes to the Group's mining plan and pit design may result in changes to the timing of realisation of the stripping activity. As a result, there could be significant adjustments to the amounts of deferred stripping costs capitalised and their classification between current and non-current assets. Details of deferred stripping costs capitalised are set out in note 15.

3.5. Close down and restoration costs
Costs associated with restoration and rehabilitation of mining sites are typical for extractive industries and are normally incurred at the end of the life of the mine. Provision is recognised for each mining site for such costs discounted to their net present value, as soon as the obligation to incur such costs arises. The costs are estimated on the basis of the scope of site restoration and rehabilitation activity in accordance with the mine closure plan and represent management's best estimate of the expenditure that will be incurred. Estimates are reviewed annually as new information becomes available.

The initial provision for close down and restoration costs together with other movements in the provision, including those resulting from updated cost estimates, changes to the estimated lives of the mines, and revisions to discount rates are capitalised within 'mine development costs' or 'mining assets' of property, plant and equipment. Capitalised costs are depreciated over the life of the mine they relate to and the provision is increased each period via unwinding the discount on the provision. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the asset and the provision.

The actual costs may be different from those estimated due to changes in relevant laws and regulations, changes in prices as well as changes to the restoration techniques. The actual timing of cash outflows may be also different from those estimated due to changes in the life of the mine as a result of changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provision for close down and restoration costs established which would affect future financial results.

Details of provision for close down and restoration costs are set out in note 22.

3.6. Tax provisions and tax legislation
The Group is subject to income tax in the UK, Russian Federation and Cyprus. Assessing the outcome of uncertain tax positions requires judgements to be made. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due, such estimates are based on the status of ongoing discussions with the relevant tax authorities and advice from independent tax advisers. Details of tax charge for the year are set out in note 10.

3.7. Recognition of deferred tax assets
Deferred tax assets, including those arising from tax losses carried forward for the future tax periods, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered. The likelihood of such recoverability is dependent on the generation of sufficient future taxable profits which a relevant deferred tax asset can be utilised to offset.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, the carrying amount of recognised deferred tax assets may require adjustment, resulting in a corresponding charge or credit to the income statement.

Details of tax charge for the year and deferred tax balances are set out in notes 10 and 21.

3.8. Measurement and classification of assets held for sale
IRC has been classified as 'held for sale' and presented separately in the consolidated balance sheet as at 31 December 2014 and 2013 as well as a discontinued operation in the income statement (note 27). The carrying value of IRC's net assets has been adjusted to fair value less estimated transaction costs, based on IRC's share price of HK$0.52 as at 31 December 2014 (31 December 2013: HK$0.78) which the Directors consider to be the best measure of fair value.

If completion of total investment into IRC by General Nice and Minmetals as set out in note 27 occurs, the Group's interest in the share capital of IRC would be diluted from 45.39% held as at 31 December 2014 to 40.68% and, with another significant shareholder block in place and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group would lose control over IRC and IRC would cease being a subsidiary of the Group and would become an associate to the Group. The carrying value of IRC will be adjusted based on its market share price on that date which will be the basis for valuation of the Group's share in IRC. Subsequent to that, IRC will be accounted for using the equity method of accounting taking into consideration the Group's share in IRC's results and subject to any impairment.

The Directors continue to consider it is highly probable that IRC will cease to be a subsidiary of the Group within 12 months after the reporting date and, accordingly, IRC continues to be classified as 'held for sale' and presented separately in the balance sheet as well as presented as a discontinued operation in the income statement. In the event completion of the strategic investment by General Nice and Minmetals is further delayed, the Directors are confident that other avenues resulting in the Group losing control over IRC could be successfully pursued.

3.9. Determination of control of subsidiaries and consolidation of entities
Judgement is required to determine when the Group has control, which requires an assessment of the relevant activities (those relating to the operating and capital decisions of the arrangement, such as: the approval of the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel or service providers of the operations) and when the decisions in relation to those activities are under the control of the Group or require unanimous consent.

Differing conclusions around these judgements, may materially impact how these businesses are presented in the consolidated financial statements – under the full consolidation method, equity method or proportionate consolidation method.

In determining whether the Group controls IRC, the Group has taken the following into specific consideration:

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; and
– the existence of a substantial guarantee of IRC's debt.

The Group's principal subsidiaries and other significant investments are set out in note 36.

4. Segment information

The Group's reportable segments under IFRS 8, which are aligned with its operating locations, were determined to be as set out below:

– Pokrovskiy, Pioneer, Malomir and Albyn hard-rock gold mines which are engaged in gold and silver production as well as field exploration and mine development; and
– Alluvial operations segment comprising various alluvial gold operations which are engaged in gold production and field exploration.

Corporate and other segment amalgamates corporate administration, in-house geological exploration and construction and engineering expertise, engineering and scientific operations and other supporting in-house functions as well as various gold projects and other activities that do not meet the reportable segment criteria.

Reportable operating segments are based on the internal reports provided to the Chief Operating Decision Maker ('CODM') to evaluate segment performance, decide how to allocate resources and make other operating decisions and reflect the way the Group's businesses are managed and reported.

The financial performance of the segments is principally evaluated with reference to operating profit less foreign exchange impacts.

4. Segment information continued

2014	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Alluvial operations US$'000	Corporate and other US$'000	Consolidated US$'000
Revenue							
Gold [a]	341,445	89,059	112,988	239,750	38,500	–	821,742
Silver	2,438	680	255	277	105	–	3,755
Other external revenue	–	–	–	–	–	39,463	39,463
Inter-segment revenue	658	–	4,117	1,016	–	196,603	202,394
Intra-group eliminations	(658)	–	(4,117)	(1,016)	–	(196,603)	(202,394)
Total Group revenue from external customers	343,883	89,739	113,243	240,027	38,605	39,463	864,960
Operating expenses and income							
Operating cash costs	(212,393)	(60,205)	(87,551)	(149,199)	(28,555)	(40,078)	(577,981)
Depreciation	(40,081)	(21,790)	(18,450)	(57,863)	(4,883)	(901)	(143,968)
Central administration expenses	–	–	–	–	–	(38,185)	(38,185)
Reversal of impairment of mining assets	–	–	–	28,935	–	–	28,935
Impairment of exploration and evaluation assets	–	(3,463)	(128)	–	(390)	(18,053)	(22,034)
Impairment of ore stockpiles	(7,144)	3,401	3,186	(9,587)	–	–	(10,144)
Impairment of investments in associates	–	–	–	–	–	(9,697)	(9,697)
Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell	–	–	–	–	(11,867)	–	(11,867)
Total operating expenses [b]	(259,618)	(82,057)	(102,943)	(187,714)	(45,695)	(106,914)	(784,941)
Share of results of associates	–	–	–	–	–	2,990	2,990
Segment result	84,265	7,682	10,300	52,313	(7,090)	(64,461)	83,009
Foreign exchange losses							(31,270)
Operating profit							51,739
Investment income							1,680
Interest expense							(67,705)
Taxation							(167,871)
Loss for the period from continuing operations							(182,157)
Segment assets	484,141	62,564	450,545	462,947	14,652	154,868	1,629,717
Segment liabilities	(16,403)	(5,851)	(9,311)	(16,669)	(757)	(45,973)	(94,964)
Deferred tax – net							(156,814)
Unallocated cash							18,262
Loans given							862
Borrowings							(977,804)
Net assets of disposal group classified as held for sale							326,112
Net assets							745,371
Other segment information							
Additions to non-current assets:							
Exploration and evaluation expenditure capitalised within intangible assets	1,143	475	6,774	7,218	41	3,480	19,131
Other additions to intangible assets	–	–	–	–	789	–	789
Capital expenditure	43,327	815	30,509	20,708	1,721	2,214	99,294
Other items capitalised [c]	10,935	(1,898)	(4,992)	(6,113)	–	–	(2,068)
Average number of employees	1,737	1,006	916	1,411	464	3,998	9,532

(a) Including US$42.3 million contribution from the cash flow hedge.

(b) Operating expenses less foreign exchange losses.

(c) Being net of interest capitalised and close down and restoration costs (note 14).

2013	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Alluvial operations US$'000	Corporate and other US$'000	Consolidated US$'000
Revenue							
Gold [(d)]	487,367	138,587	170,030	197,518	125,216	–	1,118,718
Silver	2,335	616	318	241	268	–	3,778
Other external revenue	–	–	–	–	–	77,288	77,288
Inter-segment revenue	–	–	4,326	–	–	302,126	306,452
Intra-group eliminations	–	–	(4,326)	–	–	(302,126)	(306,452)
Total Group revenue from external customers	489,702	139,203	170,348	197,759	125,484	77,288	1,199,784
Operating expenses and income							
Operating cash costs	(283,459)	(108,067)	(116,351)	(131,554)	(112,179)	(73,259)	(824,869)
Depreciation	(74,543)	(22,800)	(38,054)	(76,571)	(10,928)	(1,908)	(224,804)
Central administration expenses	–	–	–	–	–	(45,819)	(45,819)
Impairment of mining assets and goodwill	(88,926)	(22,705)	(155,946)	(17,595)	–	(126,113)	(411,285)
Impairment of exploration and evaluation assets	–	–	–	–	(215)	(94,693)	(94,908)
Impairment of ore stockpiles	(36,260)	(7,712)	(9,171)	(2,430)	–	–	(55,573)
(Loss)/gain on disposal of subsidiaries	–	–	–	–	(4,205)	459	(3,746)
Total operating expenses [(e)]	(483,188)	(161,284)	(319,522)	(228,150)	(127,527)	(341,333)	(1,661,004)
Share of results of associates	–	–	–	–	–	(711)	(711)
Segment result	6,514	(22,081)	(149,174)	(30,391)	(2,043)	(264,756)	(461,931)
Foreign exchange losses							(5,769)
Operating loss							(467,700)
Investment income							888
Interest expense							(75,268)
Other finance gains							19,365
Taxation							8,867
Loss for the period from continuing operations							(513,848)
Segment assets	616,504	122,290	464,344	471,302	31,184	204,432	1,910,056
Segment liabilities	(30,904)	(10,415)	(17,200)	(20,853)	(1,306)	(64,214)	(144,892)
Deferred tax – net							(37,550)
Unallocated cash							46,661
Loans given							1,033
Borrowings							(1,119,012)
Net assets of disposal group classified as held for sale							456,041
Net assets							1,112,337
Other segment information							
Additions to non-current assets:							
Exploration and evaluation expenditure capitalised within intangible assets	1,357	1,881	4,770	15,138	947	5,934	30,027
Other additions to intangible assets	–	–	404	1,273	1,231	63	2,971
Capital expenditure	61,177	10,583	47,928	38,907	5,438	18,546	182,579
Other items capitalised [(f)]	12,899	(656)	5,034	3,890	–	–	21,167
Average number of employees	1,943	1,260	1,225	1,252	998	4,837	11,515

(d) Including US$107.7 million contribution from the cash flow hedge.

(e) Operating expenses less foreign exchange losses.

(f) Being net of interest capitalised and close down and restoration costs (note 14).

4. Segment information continued

Entity wide disclosures

Revenue by geographical location [(a)]

	2014 US$'000	2013 US$'000
Russia and CIS	864,425	1,199,035
Other	535	749
	864,960	1,199,784

(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)]

	2014 US$'000	2013 US$'000
Russia	1,294,893	1,346,554
Other	10	10,564
	1,294,903	1,357,118

(b) Excluding financial instruments and deferred tax assets.

Information about major customers
During the years ended 31 December 2014 and 2013, 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 2014 are revenues of US$815 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$527 million to Sberbank of Russia and US$288 million to VTB (2013: US$1,084 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$625 million to Sberbank of Russia and US$459 million to VTB). The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management consider there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

5. Revenue

Continuing operations

	2014 US$'000	2013 US$'000
Sales of goods	850,228	1,177,901
Rendering of services	13,489	20,410
Rental income	1,243	1,473
	864,960	1,199,784
Investment income	1,680	888
	866,640	1,200,672

Discontinued operations

	2014 US$'000	2013 US$'000
Sales of goods	117,972	151,939
Rendering of services	4,442	8,915
	122,414	160,854
Investment income	1,667	975
	124,081	161,829

6. Operating expenses and income

	2014 US$'000	2013 US$'000
Net operating expenses [a]	721,949	1,049,673
Impairment of exploration and evaluation assets [a]	22,034	94,908
Impairment/(reversal of impairment) of mining assets and goodwill [a]	(28,935)	411,285
Impairment of ore stockpiles [a]	10,144	55,573
Impairment of investments in associates [b]	9,697	–
Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell [c]	11,867	–
Central administration expenses [a]	38,185	45,819
Foreign exchange losses	31,270	5,769
Loss on disposal of subsidiaries	–	3,746
	816,211	1,666,773

(a) As set out below.

(b) Taking into consideration the alternatives sought to realise the value of investments in associates through sale and indicative purchase consideration from the potential buyers, respective impairment provision was recognised against the associated carrying values.

(c) Note 28.

Net operating expenses

	2014 US$'000	2013 US$'000
Depreciation	143,968	224,804
Staff costs	109,341	160,577
Materials	154,099	196,225
Fuel	78,798	110,094
External services	22,608	67,551
Mining tax	47,711	61,602
Electricity	35,839	49,425
Smelting and transportation costs	3,012	5,732
Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production	46,223	68,056
Taxes other than income	14,113	8,619
Insurance	6,528	9,340
Professional fees	958	1,090
Office costs	674	1,122
Operating lease rentals	914	1,316
Business travel expenses	2,199	2,985
Provision for impairment of trade and other receivables	(1,056)	(425)
Bank charges	550	1,444
Goods for resale	17,300	42,835
Other operating expenses	40,134	46,746
Other income	(1,964)	(9,465)
	721,949	1,049,673

6. Operating expenses and income continued

Central administration expenses

	2014 US$'000	2013 US$'000
Staff costs	22,278	26,127
Professional fees	3,616	3,363
Insurance	1,048	1,200
Operating lease rentals	1,772	2,208
Business travel expenses	1,598	2,137
Office costs	838	962
Other	7,035	9,822
	38,185	45,819

Impairment charges

Impairment of mining assets
The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no impairment was required as at 31 December 2014.

The estimated recoverable amounts demonstrated improvements compared to the previous year as a result of cost optimisation measures undertaken by the Group in response to the declining gold price environment, increase in the Group's non-refractory mineable reserves and effect of the Russian Rouble depreciation on operating cash costs.

Having considered the excess of estimated recoverable amounts over the carrying values of the associated assets on the balance sheet as at 31 December 2014, the Directors concluded on the following:

– A reversal of impairment previously recorded against the carrying value of the assets that are part of the Albyn reportable segment would be appropriate. Accordingly, a post-tax impairment reversal of US$23.1 million (being US$28.9 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 Albyn.

– Whilst there have been improvements in the recoverable amounts of assets that are part of Pioneer and Malomir reportable segments, there is still uncertainty connected with the timing of the final construction and performance of the POX Hub, and, accordingly, no impairment reversals have been recorded. When the aforementioned uncertainty is eliminated or substantially reduced, there is a potential for reversal of the impairment previously recorded against the carrying values of the aforementioned assets.

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

	Impairment of goodwill US$'000	Impairment of property, plant and equipment US$'000	Pre-tax impairment charge US$'000	Taxation US$'000	Post-tax impairment charge US$'000
Pokrovskiy	–	22,705	22,705	(4,541)	18,164
Pioneer	–	88,926	88,926	(17,785)	71,141
Malomir	–	155,946	155,946	(17,876)	138,070
Albyn	–	17,595	17,595	(3,519)	14,076
In-house service companies	21,675	104,438	126,113	(7,215)	118,898
	21,675	389,610	411,285	(50,936)	360,349

The forecast future cash flows are based on the Group's current mining plan. The other key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out below:

	Year ended 31 December 2014	Year ended 31 December 2013
Long-term gold price	US$1,200/oz	US$1,250/oz
Discount rate [(a)]	9.5%	9.5%
RUS/US$ exchange rate	RUR60.0/US$	RUR33.0/US$

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 11.8% (2013: 12.5%).

Impairment of exploration and evaluation assets

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

- considering the anticipated timescale for the potential financial return from exploration and evaluation assets in Guyana, an impairment provision of US$13.3 million was recognised against the carrying values of the associated assets included in exploration and evaluation costs previously capitalised within intangible assets (US$10.4 million), property, plant and equipment (US$1.2 million) and inventories (US$1.7 million);
- considering the anticipated timescale for the potential financial return from the Tokur assets, which are awaiting development of a full-scale mining operation and which was put on hold in 2013, a further US$4.8 million impairment provision was recognised against the carrying values of the associated assets previously capitalised within property, plant and equipment (US$1.4 million) and inventories (US$3.4 million); and
- US$4.0 million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various licence areas, primarily located in the Amur region.

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 2014			Year ended 31 December 2013		
	Pre-tax impairment charge/ (reversal of impairment) US$'000	Taxation US$'000	Post-tax impairment charge/ (reversal of impairment) US$'000	Pre-tax impairment charge US$'000	Taxation US$'000	Post-tax impairment charge US$'000
Pokrovskiy	(3,401)	680	(2,721)	7,712	(1,543)	6,169
Pioneer	7,144	(1,429)	5,715	36,260	(7,252)	29,008
Malomir	(3,186)	637	(2,549)	9,171	(1,834)	7,337
Albyn	9,587	(1,917)	7,670	2,430	(486)	1,944
	10,144	(2,029)	8,115	55,573	(11,115)	44,458

7. Auditor's remuneration

The Group, including its overseas subsidiaries, obtained the following services from the Company's auditor and their associates:

	2014 US$'000	2013 US$'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	607	572
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	355	393
For the audit of subsidiary statutory accounts pursuant to legislation [(a)]	624	632
	1,586	1,597
Non-audit fees		
Other services pursuant to legislation – interim review [(b)]	431	410
Fees for reporting accountants services [(c)]	2,313	211
Tax services	–	–
Other services	36	22
	2,780	643

(a) Including the statutory audit of subsidiaries in the UK and Cyprus as well as US$541 thousand (2013: US$541 thousand) payable for the audit of the consolidated financial statements of IRC.

(b) Including US$143 thousand (2013: US$139 thousand) payable for the interim review of the consolidated financial statements of IRC.

(c) Fees payable in relation to the refinancing plan launched on 2 February 2015 (2013: Fees payable in relation to the circular issued on 18 February 2013 in connection with the proposed issue of shares by IRC (note 27)).

8. Staff costs

Continuing operations

	2014 US$'000	2013 US$'000
Wages and salaries	103,410	146,168
Social security costs	26,329	36,331
Pension costs	334	327
Share-based compensation	1,546	3,878
	131,619	186,704
Average number of employees	9,532	11,515

Discontinued operations

	2014 US$'000	2013 US$'000
Wages and salaries	35,703	42,613
Social security costs	9,258	10,297
Pension costs	332	219
Share-based compensation	3,327	3,335
	48,620	56,464
Average number of employees	2,261	2,248

9. Financial income and expenses

	2014 US$'000	2013 US$'000
Investment income		
Interest income	1,680	888
	1,680	888
Interest expense		
Interest on bank loans	(55,165)	(64,840)
Interest on convertible bonds	(25,424)	(29,404)
	(80,589)	(94,244)
Interest capitalised	13,372	19,346
Unwinding of discount on environmental obligation	(488)	(370)
	(67,705)	(75,268)
Other finance gains		
Gain on buy-back of convertible bonds	–	19,365
	–	19,365

10. Taxation

	2014 US$'000	2013 US$'000
Current tax		
UK current tax [(a)]	1,601	–
Russian current tax	32,849	39,665
	34,450	39,665
Deferred tax		
Origination/(reversal) of timing differences [(b)]	133,421	(48,532)
Total tax charge/(credit)	167,871	(8,867)

(a) Being adjustment in relation to prior years.

(b) Including effect of foreign exchange movements in respect of deductible temporary differences of US$128.8 million (year ended 31 December 2013: US$23.8 million) which primarily arises as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US$ carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

The charge/(credit) for the year can be reconciled to the loss before tax per the income statement as follows:

	2014 US$'000	2013 US$'000
Loss before tax from continuing operations	(14,286)	(522,715)
Tax at the UK corporation tax rate of 21.5% [(a)] (2013: 23.25%)	(3,071)	(121,531)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,516)	13,180
Tax effect of share of results of joint ventures and associates	(643)	165
Tax effect of expenses that are not deductible for tax purposes	11,419	6,954
Tax effect of tax losses for which no deferred income tax asset was recognised	33,117	69,925
Income not subject to tax	–	(364)
Utilisation of previously unrecognised tax losses	(363)	(373)
Foreign exchange movements in respect of deductible temporary differences	128,787	23,816
Other adjustments	3,141	(639)
Tax charge/(credit) for the period	167,871	(8,867)

(a) On 20 March 2013, the UK Government announced a reduction in the main rate of UK corporation tax from 23% to 21% effective from 1 April 2014.

11. Earnings per share

	2014 US$'000	2013 US$'000
Loss for the period attributable to equity holders of Petropavlovsk PLC	(260,664)	(610,710)
From continuing operations	(184,296)	(509,044)
From discontinued operations	(76,368)	(101,666)
Interest expense on convertible bonds, net of tax [a]	–	–
Loss used to determine diluted earnings per share	(260,664)	(610,710)
From continuing operations	(184,296)	(509,044)
From discontinued operations	(76,368)	(101,666)
	No of shares	No of shares
Weighted average number of Ordinary Shares	196,423,244	196,415,932
Adjustments for dilutive potential Ordinary Shares [a], [b]	–	–
Weighted average number of Ordinary Shares for diluted earnings per share	196,423,244	196,415,932
	US$	US$
Basic loss per share	(1.33)	(3.11)
From continuing operations	(0.94)	(2.59)
From discontinued operations	(0.39)	(0.52)
Diluted loss per share	(1.33)	(3.11)
From continuing operations	(0.94)	(2.59)
From discontinued operations	(0.39)	(0.52)

(a) Convertible bonds which could potentially dilute basic loss per ordinary share in the future are not included in the calculation of diluted loss per share because they were anti-dilutive for the year ended 31 December 2014 and 2013.

(b) The Group has a potentially dilutive option issued to International Finance Corporation ('IFC') to subscribe for 1,067,273 Ordinary Shares which was anti-dilutive and therefore was not included in the calculation of diluted loss per share for the year ended 31 December 2014 and 2013.

12. Dividends

	2014 US$'000	2013 US$'000
Final dividend for the year ended 31 December 2012 [a], [b]	–	5,774
	–	5,774

(a) Comprising a cash payment of £0.02 per Ordinary Share together with an entitlement to new Ordinary Shares with an attributable value of £0.05 (note 23).

(b) Approved on 11 June 2013 and paid on 26 July 2013.

13. Exploration and evaluation assets

	Visokoe US$'000	Flanks of Pokrovskiy US$'000	Flanks of Albyn US$'000	Other [a] US$'000	Total US$'000
At 1 January 2014	47,334	10,343	40,822	17,509	116,008
Additions	959	2,455	7,218	9,288	19,920
Disposal of subsidiary	–	–	–	(13)	(13)
Disposal	–	(800)	–	–	(800)
Impairment [b]	–	(3,463)	–	(10,921)	(14,384)
Transfer to mining assets	–	(73)	(12,401) [c]	(5,376)	(17,850)
Transfer to assets classified as held for sale [d]	–	–	–	(1,661)	(1,661)
Reallocation and other transfers	–	(4,077)	–	390	(3,687)
At 31 December 2014	48,293	4,385	35,639	9,216	97,533

(a) Represent amounts capitalised in respect of a number of projects in Guyana and the Amur region.

(b) Note 6.

(c) Following completion of exploration and commencement of the mining activity at the Flanks of Albyn, the associated amounts capitalised has been transferred to mining assets within property, plant and equipment.

(d) Note 28.

	Visokoe US$'000	Tokur US$'000	Flanks of Pokrovskiy US$'000	Flanks of Albyn US$'000	Other [e] US$'000	Total US$'000
At 1 January 2013	45,876	63,556	6,516	24,411	49,196	189,555
Additions	1,458	–	3,827	16,411	11,302	32,998
Disposal of subsidiary	–	–	–	–	(1,231)	(1,231)
Impairment	–	(63,556)	–	–	(31,352)	(94,908)
Transfer to mining assets [f]	–	–	–	–	(11,197)	(11,197)
Reallocation and other transfers	–	–	–	–	791	791
At 31 December 2013	47,334	–	10,343	40,822	17,509	116,008

(e) Represent amounts capitalised in respect of a number of projects in Guyana, the Amur and other regions.

(f) Including US$7.1million related to Burinda operations.

14. Property, plant and equipment

	Mine development costs US$'000	Mining assets US$'000	Non-mining assets US$'000	Capital construction in progress US$'000	Total US$'000
Cost					
At 1 January 2013	6,358	1,697,966	219,549	264,285	2,188,158
Additions	377	60,469	4,018	117,715	182,579
Interest capitalised (note 9) (a)	–	–	–	19,346	19,346
Close down and restoration cost capitalised (note 22)	–	1,821	–	–	1,821
Transfers from exploration and evaluation assets (note 13)	–	11,197	–	–	11,197
Transfers from capital construction in progress (b)	–	126,651	16,058	(142,709)	–
Disposals	–	(5,050)	(6,206)	(113)	(11,369)
Disposal of subsidiaries	–	(44,291)	(2,881)	–	(47,172)
Reallocation and other transfers	(10)	263	(1,018)	(44)	(809)
Foreign exchange differences	–	–	(3,217)	–	(3,217)
At 31 December 2013	6,725	1,849,026	226,303	258,480	2,340,534
Additions	42	29,884	1,960	67,408	99,294
Interest capitalised (note 9) (a)	–	–	–	13,372	13,372
Close down and restoration cost capitalised (note 22)	–	(15,440)	–	–	(15,440)
Transfers from exploration and evaluation assets (note 13)	–	17,850	–	–	17,850
Transfers from capital construction in progress (b)	–	17,596	1,329	(18,925)	–
Disposals	–	(8,167)	(13,148)	(109)	(21,424)
Transfer to assets classified as held for sale (note 28)	(7)	(38,112)	(988)	–	(39,107)
Reallocation and other transfers	(1,077)	(11,567)	(2,121)	18,338	3,573
Foreign exchange differences	–	–	(7,164)	–	(7,164)
At 31 December 2014	5,683	1,841,070	206,171	338,564	2,391,488
Accumulated depreciation and impairment					
At 1 January 2013	5,678	497,299	76,147	2,568	581,692
Charge for the year	33	215,339	17,040	–	232,412
Impairment (note 6)	–	290,051	95,239	4,320	389,610
Disposals	–	(3,540)	(4,330)	–	(7,870)
Disposal of subsidiaries	–	(24,976)	(1,722)	–	(26,698)
Reallocation and other transfers	–	(108)	90	–	(18)
Foreign exchange differences	–	–	(556)	–	(556)
At 31 December 2013	5,711	974,065	181,908	6,888	1,168,572
Charge for the year	14	137,381	8,191	–	145,586
Impairment (note 6)	–	1,371	1,217	–	2,588
Reversal of impairment of mining assets (note 6)	–	(28,530)	–	(405)	(28,935)
Disposals	–	(5,931)	(8,822)	–	(14,753)
Transfer to assets classified as held for sale (note 28)	(7)	(20,117)	(702)	–	(20,826)
Reallocation and other transfers	(35)	2,128	(2,207)	–	(114)
Foreign exchange differences	–	–	(3,662)	–	(3,662)
At 31 December 2014	5,683	1,060,367	175,923	6,483	1,248,456
Net book value					
At 31 December 2013 (c)	1,014	874,961	44,395	251,592	1,171,962
At 31 December 2014 (c)	–	780,703	30,248	332,081	1,143,032

(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 7.8% (2013: 7.9%).

(b) Being costs primarily associated with continuous development of Malomir, Albyn and Pioneer projects.

(c) Property, plant and equipment with a net book value of US$143.0 million (31 December 2013: US$133.2 million) have been pledged to secure borrowings of the Group.

15. Inventories

	2014 US$'000	2013 US$'000
Current		
Construction materials	9,746	16,089
Stores and spares	87,968	109,876
Ore in stockpiles [(a), (c)]	46,789	60,489
Work in progress	39,633	39,923
Deferred stripping costs	8,428	20,025
Bullion in process	1,529	1,979
Other	12,405	11,534
	206,498	259,915
Non-current		
Ore in stockpiles [(a), (b), (c)]	42,436	34,834
	42,436	34,834

(a) Note 6.

(b) Ore in stockpiles that is not planned to be processed within twelve months after the reporting period.

(c) As at 31 December 2014, ore in stockpiles include balances in the aggregate of US$11.5 million carried at net realisable value (2013: US$90.8 million).

16. Trade and other receivables

	2014 US$'000	2013 US$'000
Current		
VAT recoverable	35,430	57,687
Advances to suppliers	10,492	16,011
Trade receivables [(a)]	12,314	20,100
Other debtors [(b)]	16,656	12,950
	74,892	106,748

(a) Net of provision for impairment of US$0.6 million (2013: US$0.9 million). Trade receivables are due for settlement between one and three months.

(b) Net of provision for impairment of US$2.2 million (2013: US$5.1 million). The movement in the provision arises primarily from the depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2014 as the underlying receivables are Rouble denominated.

There is no significant concentration of credit risk with respect to trade and other receivables. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by the Board of Directors. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

17. Cash and cash equivalents

	2014 US$'000	2013 US$'000
Cash at bank and in hand	45,787	83,676
Short-term bank deposits	2,293	86,919
	48,080	170,595

18. Derivative financial instruments

	31 December 2014		31 December 2013	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Forward gold contracts – cash flow hedge [(a), (b), (e)]	6,272	–	62,838	–
Gold put option contracts [(c), (d), (e)]	3,158	–	–	–
	9,430	–	62,838	–

(a) Forward contracts to sell an aggregate of 50,000 ounces of gold at an average price of US$1,310 per ounce are outstanding as at 31 December 2014 (31 December 2013: 279,138 ounces of gold at an average price of US$1,429 per ounce).

(b) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- *gold forward curves observable at quoted intervals; and*
- *observable credit spreads.*

(c) Option contracts to sell an aggregate of 150,000 ounces of gold with a strike price of US$1,150 per ounce are outstanding as at 31 December 2014 (31 December 2013: nil). The intrinsic value of the option contracts is designated as a cash flow hedge and the time value of the option contracts is designated at fair value through profit or loss.

(d) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- *historic gold price volatility;*
- *the option strike price;*
- *time to maturity; and*
- *risk free rate.*

(e) The hedged forecast transactions are expected to occur at various dates during the next 12 months.

Gain and losses recognised in the hedging reserve in equity as at the reporting date will be recognised in the income statement in the periods during which the hedged gold sale transactions affect the income statement.

There was no ineffectiveness to be recorded from the cash flow hedge during the years ended 31 December 2014 and 2013.

19. Trade and other payables

	2014 US$'000	2013 US$'000
Trade payables	16,027	24,579
Advances from customers	6,146	9,688
Advances received on resale and commission contracts [(a)]	16,714	13,561
Accruals and other payables	27,826	51,065
	66,713	98,893

(a) Amounts included in advances received on resale and commission contracts at 31 December 2014 and 31 December 2013 relate to services performed by the Group's subsidiary, Irgiredmet, in its activity to procure materials such as reagents, consumables and equipment for third parties.

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

20. Borrowings

	2014 US$'000	2013 US$'000
Borrowings at amortised cost		
Convertible bonds [(a)]	313,257	300,254
Bank loans [(b)]	664,547	818,758
	977,804	1,119,012
Amount due for settlement within 12 months	415,161	158,495
Amount due for settlement after 12 months	562,643	960,517
	977,804	1,119,012

(a) Outstanding $310.5 million principal of US$380 million convertible bonds issued in 2010 and due on 18 March 2015 (following the extension of the original maturity date of 18 February 2015) (the 'Existing Bonds'). The Existing Bonds were issued at par by the Company's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The Existing Bonds carry a coupon of 4.00% payable semi-annually in arrears and are convertible into redeemable preference shares of Petropavlovsk 2010 Limited which are guaranteed by and will be exchangeable immediately upon issuance for Ordinary Shares in the Company. The initial conversion price has been set at £12.9345 per share, subject to adjustment for certain events, and adjusted to £11.56 with effect from 26 June 2013 for each US$100,000 principal amount of a Bond, and the conversion exchange rate has been fixed at US$1.6244 per £1. The Existing Bonds were admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange on 19 February 2010.

The net proceeds received from the issue of the convertible bonds were split between the liability component and the equity component representing the fair value of the embedded option to convert the liability into equity of the Group. The liability component of the Bonds is measured at amortised cost. The interest charged was calculated by applying an effective interest rate of 8.65% to the liability component.

As at 31 December 2014, 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 US$271 million (31 December 2013: US$223 million).

Pursuant to the Refinancing plan launched on 2 February 2015, the Existing Bonds were settled as set out in note 34. Upon settlement of the Existing Bonds, the associated US$48 million convertible bond reserve was transferred to retained earnings.

(b) As at 31 December 2014, US$111.1 million (2013: US$119.8 million) bank loans are secured against certain items of property, plant and equipment of the Group (note 14).

The weighted average interest rate paid during the year ended 31 December 2014 was 7.9% (2013: 7.7%).

The carrying value of the bank loans approximated their fair value at each period end.

As at 31 December 2014, bank loans with an aggregate carrying value of US$553.4 million (2013: US$693.4 million) contain certain financial covenants.

As at 31 December 2014, the amounts undrawn under the bank loans were US$ nil (2013: US$ nil).

21. Deferred taxation

	2014 US$'000	2013 US$'000
At 1 January	37,550	75,913
Deferred tax charged/(credited) to income statement [(a)]	133,421	(48,532)
Disposal of subsidiaries	–	(2,024)
Deferred tax (credited)/charged to equity	(11,314)	12,569
Transfer to liabilities associated with assets classified as held for sale	(3,005)	–
Exchange differences	162	(376)
At 31 December	156,814	37,550
Deferred tax assets	40	346
Deferred tax liabilities	(156,854)	(37,896)
Net deferred tax liability	(156,814)	(37,550)

(a) Note 10.

	At 1 January 2014 US$'000	Charged/ (credited) to the income statement US$'000	Credited directly to equity US$'000	Transfer to liabilities associated with assets classified as held for sale [(a)] US$'000	Exchange differences US$'000	At 31 December 2014 US$'000
Property, plant and equipment	14,346	103,420	–	(1,672)	–	116,094
Inventory	13,180	8,718	–	8	–	21,906
Capitalised exploration and evaluation expenditure	(4,575)	8,190	–	(86)	–	3,529
Fair value adjustments	7,082	(5,866)	–	(486)	(243)	487
Tax losses	(4,412)	4,412	–	–	–	–
Other temporary differences	11,929	14,547	(11,314)	(769)	405	14,798
	37,550	133,421	(11,314)	(3,005)	162	156,814

(a) Note 28.

	At 1 January 2013 US$'000	Charged/ (credited) to the income statement US$'000	Charged directly to equity US$'000	Disposal of subsidiaries US$'000	Exchange differences US$'000	At 31 December 2013 US$'000
Property, plant and equipment	60,149	(44,350)	–	(1,453)	–	14,346
Inventory	30,620	(17,045)	–	(395)	–	13,180
Capitalised exploration and evaluation expenditure	(2,834)	(1,741)	–	–	–	(4,575)
Fair value adjustments	8,465	(811)	–	(197)	(375)	7,082
Tax losses	(4,412)	–	–	–	–	(4,412)
Other temporary differences	(16,075)	15,415	12,568	21	–	11,929
	75,913	(48,532)	12,568	(2,024)	(375)	37,550

As at 31 December 2014, the Group did not recognise deferred tax assets in respect of the accumulated tax losses from continuing operations comprising US$499.2 million that can be carried forward against future taxable income (2013: US$450.5 million). Tax losses of US$368.3 million can be carried forward indefinitely and tax losses of US$130.9 million expire primarily between 2018 and 2024.

As at 31 December 2014, the Group did not recognise deferred tax assets of US$4.0 million (2013: US$10.5 million) in respect of temporary differences arising on certain capitalised development costs attributable to continuing operations.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries and associates and interests in joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. As at 31 December 2014, statutory unremitted earnings from continuing operations comprised in aggregate US$676.5 million (2013: US$1,078.9 million).

22. Provision for close down and restoration costs

	2014 US$'000	2013 US$'000
At 1 January	36,169	33,978
Unwinding of discount	488	370
Change in estimates	(15,440) [a]	1,821
At 31 December	21,217	36,169

a) Primarily reflects the effect of change in the forecast the Russian Rouble to the US Dollar exchange rate following a significant depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2014.

The Group recognised provisions in relation to close down and restoration costs for the following mining operations:

	2014 US$'000	2013 US$'000
Pokrovskiy	2,703	4,597
Pioneer	4,028	5,796
Malomir	6,384	11,220
Albyn	7,718	14,172
Yamal	384	384
	21,217	36,169

The provision recognised represents the present value of the estimated expenditure that will be incurred, which has been arrived at using the long-term risk-free pre-tax cost of borrowing. The expenditure arises at different times over the life of mine. The expected timing of significant cash outflows is between years 2016 and 2030, varying from mine site to mine site.

23. Share capital

	2014		2013	
	No of shares	US$'000	No of shares	US$'000
Allotted, called up and fully paid				
At 1 January	197,638,425	3,041	187,860,093	2,891
Issued during the period	–	–	9,778,332 [a]	150
At 31 December	197,638,425	3,041	197,638,425	3,041

(a) Issued to shareholders in respect of their entitlement to receive 1 new Ordinary Share for every 19.21 Ordinary Shares held on the Register at the close of business on 28 June 2013 pursuant to a resolution of the Company's shareholders at the annual general meeting held on 11 June 2013.

The Company has one class of ordinary shares which carry no right to fixed income.

The Company has an option issued to the IFC on 20 April 2009 to subscribe for 1,067,273 Ordinary Shares at an exercise price of £11.84 per share, subject to adjustments. The option expires on 25 May 2015.

Pursuant to the Refinancing announced on 2 February 2015, 3,102,923,272 new Ordinary Shares were issued in March 2015 (note 34).

24. Own shares

	2014 US$'000	2013 US$'000
At 1 January	8,925	10,196
Vesting of awards within Petropavlovsk PLC LTIP	–	(1,272)
Bonus share issue	–	1
At 31 December	8,925	8,925

Own shares represent 1,215,181 Ordinary Shares held by the EBT (2013: 1,215,181) to provide benefits to employees under the Long Term Incentive Plan (note 29).

25. Notes to the cash flow statement

Reconciliation of loss before tax to operating cash flow

	2014 US$'000	2013 US$'000
Loss before tax including discontinued operations	(173,801)	(721,413)
Adjustments for:		
Share of results of joint ventures	(2,900)	115
Share of results of associate	(2,990)	711
Investment income	(3,347)	(1,864)
Gain on buy-back of convertible bonds	–	(19,365)
Interest expense	70,248	78,181
Share based payments	4,873	7,213
Depreciation	150,482	245,915
Impairment/(reversal of impairment) of mining assets and goodwill	(28,935)	411,285
Impairment of IRC assets	18,810	28,850
Impairment of exploration and evaluation assets	22,034	94,908
Impairment of ore stockpiles	10,144	55,573
Impairment of investments in associates	9,697	–
Effect of processing previously impaired stockpiles	(41,834)	(36,274)
Provision for impairment of trade and other receivables	(1,017)	(552)
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell	89,570	151,589
Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell	11,867	–
Loss on disposals of property, plant and equipment	1,917	1,173
(Gain)/loss on disposal of subsidiaries	(3,127)	3,746
Foreign exchange losses	44,677	8,536
Other non-cash items	4,093	(5,369)
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(17,943)	54,124
Decrease in inventories	67,628	61,691
Increase/(decrease) in trade and other payables	15,261	(11,404)
Net cash generated from operations	245,407	407,369

Non-cash transactions

During the year ended 31 December 2014, there have been no significant non-cash transactions (2013: other than issue of ordinary shares (note 23), there have been no significant non-cash transactions).

26. Related parties

Related parties the Group entered into transactions with during the reporting period
OJSC Asian-Pacific Bank ('Asian-Pacific Bank') and LLC Insurance Company Helios Reserve ('Helios') are considered to be a related parties as members of key management have an interest in and collectively exercise significant influence over these entities.

The Petropavlovsk Foundation for Social Investment (the 'Petropavlovsk Foundation') is considered to be a related party due to the participation of the key management of the Group in the governing board of the Petropavlovsk Foundation and their presence in its board of guardians.

OJSC Krasnoyarskaya GGK ('Krasnoyarskaya GGK') was considered to be a related party due to this entity's minority interest and significant influence in the Group's subsidiary CJSC Verkhnetisskaya Ore Mining Company ('Verkhnetisskaya') until 8 July 2013. Verkhnetisskaya became an associate to the Group on 8 July 2013 and hence qualifies as a related party since then.

CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ('Omchak') are associates to the Group and hence are related parties.

Transactions with related parties the Group entered into during the years ended 31 December 2014 and 2013 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	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Asian-Pacific Bank				
Other	503	462	201	552
	503	462	201	552
Trading transactions with other related parties				
Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control	294	101	10,317	10,045
Associates	80	344	–	–
	374	445	10,317	10,045

During the year ended 31 December 2014, the Group made US$0.5 million charitable donations to the Petropavlovsk Foundation (2013: US$1.1 million).

The outstanding balances with related parties at 31 December 2014 and 2013 are set out below.

	Amounts owed by related parties at 31 December		Amounts owed to related parties at 31 December	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Helios and other entities in which key management have interest and exercises a significant influence or control	2,864	1,955	151	2
Associates	85	132	–	144
Asian-Pacific Bank	6	9	–	–
	2,955	2,096	151	146

Banking arrangements

The Group has current and deposit bank accounts with Asian-Pacific Bank.

The bank balances at 31 December 2014 and 2013 are set out below.

	2014 [(a)] US$'000	2013 [(a)] US$'000
Asian-Pacific Bank	52,253	46,505

(a) Including US$31.9 million presented within assets classified as held for sale as at 31 December 2014 (2013: US$24.4 million) (notes 27 and 28).

Financing transactions

The Group had an interest-free unsecured loan issued to Verkhnetisskaya. Loan principal outstanding as at 31 December 2014 amounted to US$3.6 million (31 December 2013: US$6.2 million).

As at 31 December 2014 and 31 December 2013, the Group had an interest-free unsecured loan issued to LLC Kaurchak. Loan principal outstanding amounted to US$0.6 million (31 December 2013: US$1.0 million).

Financing transactions between IRC and Asian-Pacific Bank are disclosed in note 27.

Key management compensation

Key management personnel, comprising a group of 21 (2013: 21) individuals, including Executive and Non-Executive Directors of the Company and members of senior management, are those having authority and responsibility for planning, directing and controlling the activities of the Group.

	2014 US$'000	2013 US$'000
Wages and salaries	9,453	10,279
Pension costs	586	534
Share based compensation	2,346	5,472
	12,385	16,285

27. Asset held for sale and discontinued operation – IRC

As set out in note 27 of the Group's consolidated financial statements for the year ended 31 December 2013, on 17 January 2013, IRC entered into conditional subscription agreements with each of General Nice Development Limited ('General Nice') and Minmetals Cheerglory Limited ('Minmetals') for an investment by General Nice and Minmetals in new shares of IRC for up to approximately HK$1,845 million (equivalent to approximately US$238 million) in aggregate. The above transactions were approved at the Company's Extraordinary General Meeting on 7 March 2013 and the Extraordinary General Meeting of IRC on 11 March 2013.

As at 31 December 2013, a total of 1,035,876,000 new shares of IRC have been allotted and issued to General Nice, following the receipt of partial subscription monies of approximately HK$1,005.7 million (equivalent to approximately US$129.6 million).

The following transactions have occurred since 31 December 2013 until the date of approval of these consolidated financial statements:

- on 26 February 2014, IRC received subscription monies of HK$155.1 million (equivalent to approximately US$20 million) from General Nice and accordingly has allotted and issued 165,000,000 new shares of IRC to General Nice as a further partial subscription of General Nice Further Subscription Shares; and
- on 30 April 2014, IRC received subscription monies of HK$155.1 million (equivalent to approximately US$20 million) from General Nice and accordingly has allotted and issued 165,000,000 new shares of IRC to General Nice as a further partial subscription of General Nice Further Subscription Shares.

IRC agreed with General Nice to complete the remainder of the General Nice Further Subscription by payment to IRC of the remaining amount of HK$296.4 million (equivalent to approximately US$38.2 million) on or before 25 June 2014 ('General Nice Further Subscription Completion'). Upon IRC receiving full payment of HK$296.4 million (equivalent to approximately US$38.2 million) on or before 25 June 2014, IRC should have allotted and issued to General Nice 315,260,000 new Shares as General Nice Further Subscription Shares and should also have allotted and issued 25,548,000 Shares to General Nice as Deferred Subscription Shares. IRC has also agreed with General Nice that, in the event full payment of HK$296.4 million (equivalent to approximately US$38.2 million) was not made on or before 25 June 2014, no General Nice Deferred Subscription Shares should be issued to General Nice.

On 25 June 2014, the General Nice Further Subscription Completion did not take place as planned. Accordingly, none of the 25,548,000 General Nice Deferred Subscription Shares was issued to General Nice.

On 17 November 2014, IRC agreed with General Nice that General Nice Further Subscription Completion would take place on or before 18 December 2014. As part of General Nice's commitment to the transaction and investment, in addition to the personal guarantee already received from Mr. Cai Sui Xin, IRC had also agreed with General Nice that, in the event that the full payment was not made on or before 18 December 2014 and General Nice sought, and IRC agreed to, a further deferral of General Nice Further Subscription Completion, General Nice would pay interest on a monthly basis on the outstanding balance to the Company, calculated on the following escalating interest schedule:

- 6% per annum from 19 December 2014 to 18 March 2015;
- 9% per annum from 19 March 2015 to 18 June 2015; and
- 12% per annum from 19 June 2015 and thereafter.

Further, in accordance with the original subscription agreements, the shares subscription of Minmetals ('Minmetals Subscription') would complete upon full completion of General Nice Further Subscription Shares taking place on or before 18 December 2014.

On 18 December 2014, the extension of the General Nice Further Subscription Completion as agreed on 17 November 2014 did not happen. IRC and General Nice had agreed that General Nice would commence paying interest in accordance with the above schedule while IRC considered to permit a further deferral of the General Nice Further Subscription Completion. As General Nice Further Subscription did not occur on or before 18 December 2014, the completion of the Minmetals Subscription would be subject to further agreement between the parties.

At 31 December 2014, a cumulative total of 1,365,876,000 new shares of IRC had been allotted and issued to General Nice, following the receipt of aggregate subscription monies of approximately HK$1,315.9 million (equivalent to approximately US$169.6 million). IRC is in discussions with General Nice, Mr. Cai Sui Xin and Minmetals about a further deferred completion and other available options.

As at 31 December 2014, the Group's interest in the share capital of IRC was 45.39% (31 December 2013: 48.7%). The Group retains sufficiently dominant voting interest to exercise de facto control over IRC on the basis of the size of the Group's shareholding relative to the size and dispersion of the shareholding interests of other shareholders.

If total investment completion occurs, the Group's interest in the share capital of IRC would be diluted to 40.68% and, with another significant shareholder block in place and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group would lose control over IRC and IRC would cease being a subsidiary of the Group.

The Directors continue to consider it is highly probably that IRC will cease to be a subsidiary of the Group within 12 months after the reporting date and, accordingly, IRC continues to be classified as 'held for sale' and presented separately in the balance sheet as well as presented as a discontinued operation in the income statement. In the event completion of the strategic investment by General Nice and Minmetals is further delayed, the Directors are confident that other avenues resulting in the Group losing control over IRC could be successfully pursued.

The main categories of assets and liabilities classified as held for sale are set out below.

	31 December 2014		31 December 2013	
	Carrying amount US$'000	Fair value less costs to sell [a], [b] US$'000	Carrying amount US$'000	Fair value less costs to sell [a], [b] US$'000
Exploration and evaluation assets	54,790	17,664	53,302	22,635
Property, plant and equipment [c]	702,050	239,975	609,061	231,803
Prepayments for property, plant and equipment	203,387	203,387	228,671	228,671
Interests in joint ventures	7,294	7,294	4,893	4,893
Other non-current assets	32,298	32,298	20,627	20,627
Inventories	51,181	51,181	57,682	57,682
Trade and other receivables	15,662	15,662	26,534	26,534
Cash and cash equivalents	47,740	47,740	92,142	92,142
Total assets classified as held for sale	1,114,402	615,201	1,092,912	684,987
Trade and other payables	11,683	11,683	18,593	18,593
Current income tax payable	478	478	274	274
Borrowings [d],[e]	268,891	268,891	200,226	200,226
Deferred tax liabilities	64,204	4,016	59,719	1,237
Provision for close down and restoration costs	4,021	4,021	8,616	8,616
Total liabilities associated with assets classified as held for sale	349,277	289,089	287,428	228,946
Net assets of IRC	765,125	326,112	805,484	456,041
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell as at 31 December 2013	(349,443)		(349,443)	
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell as at 31 December 2014	(89,570)			
Fair value less costs to sell [a], [b]	326,112		456,041	
Attributable to:				
Equity shareholders of Petropavlovsk PLC	148,814		222,379	
Non-controlling interests	177,298		233,662	

(a) Based on market share price of HK$0.52 per IRC share as at 31 December 2014 (31 December 2013: HK$0.78) less transaction costs. A decrease/increase of 10% in IRC's share price would result in US$32.6 million (31 December 2013: US$45.6 million) additional write-down/reversal of write-down adjustment.

(b) Non-recurring fair value measurement treated as Level 1 of the fair value hierarchy.

(c) At 31 December 2014, IRC had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US$68 million (31 December 2013: US$179 million). These amounts are not included in the capital commitments stated in note 33, as such amounts therein represent commitments from continuing operations.

(d) On 6 December 2010, Kimkano-Sutarsky Mining and Beneficiation Plant LLC ('K&S'), a subsidiary of IRC, entered into a US$400 million Engineering Procurement and Construction Contract with China National Electric Engineering Corporation for the construction of the Group's mining operations at K&S. On 13 December 2010, K&S entered into a project finance facility agreement with the Industrial and Commercial Bank of China Limited ('ICBC') (the 'ICBC Facility Agreement') pursuant to which ICBC would lend US$340 million to K&S to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ('LIBOR') per annum. The facility is guaranteed by the Company and is repayable semi-annually in 16 instalments US$21,250 thousand each, starting from December 2014 and is fully repayable by June 2022. The outstanding loan principal was US$266.7 million as at 31 December 2014 (31 December 2013: US$194.8 million). The loan is carried at amortised cost with effective interest rate at 5.63% per annum. As at 31 December 2014 and 2013, US$27.3 million and US$6 million, respectively, were deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement. ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2015, inclusive. As at 31 December 2014, the amounts undrawn under the ICBC Facility Agreement were US$52 million (31 December 2013: US$145.2 million).

(e) IRC entered into the following financing transactions with Asian-Pacific Bank:

- *In July 2013, IRC entered into US$15 million loan facility, bearing an annual interest of 9.0% for the period from 22 July 2013 to 2 December 2013 and 10.60% for the period from 3 December 2013 to the repayment date. The principal of the loan was repayable by 21 July 2014. On 23 April 2014, the US$15 million term-loan facility had been renewed for another 12-month period with an annual interest of 9.0%. As at 31 December 2014, the whole loan amount was drawn down under the loan facility.*
- *In November 2013, IRC entered into a US$10 million loan facility, bearing an annual interest of 10.6 % and repayable by 21 July 2014. The principal of the loan was repayable by 20 November 2014. On 23 October 2014, the US$10 million term-loan facility had been renewed for another 12-month period with an annual interest of 10.6%. As at 31 December 2014, the Group had drawn down US$6 million from the loan facility.*
- *In 2014, IRC drew down US$60.8 million, in aggregate, from the aforementioned facilities in several tranches on a rolling basis and US$59.8 million, in aggregate, were repaid. As at 31 December 2014, the amounts undrawn under the facilities with Asian-Pacific Bank were US$4 million (31 December 2013: US$5 million).*

Analysis of the result of discontinued operations and the results recognised on the re-measurement of IRC is set out below.

	2014 US$'000	2013 US$'000
Revenue	122,414	160,854
Net expenses	(192,359)	(207,963)
Loss before tax from discontinued operations	(69,945)	(47,109)
Taxation	(6,020)	(677)
Loss after tax from discontinued operations	(75,965)	(47,786)
Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell	(89,570)	(151,589)
Loss for the period from discontinued operations	(165,535)	(199,375)
Attributable to:		
Equity shareholders of Petropavlovsk PLC	(76,368)	(101,666)
Non-controlling interests	(89,167)	(97,709)

Analysis of cash flows attributable to discontinued operations is set out below.

	2014 US$'000	2013 US$'000
Operating cash flows	(35,610)	(10,481)
Investing cash flows	(95,936)	(110,373)
Financing cash flows	89,764	196,188
Total cash flows	(41,782)	75,334

28. Asset held for sale – Koboldo

On 21 November 2014, the Group entered into a conditional Share Purchase Agreement ('SPA') relating to the sale of its 95.7% interest in OJSC ZDP Koboldo ('Koboldo'), however, due to the non-fulfilment of certain conditions precedent, the sale was not finalised at the time. Subsequently, the Group was approached by another purchaser, Global-Polymetall, with whom the Group entered into a SPA relating to the sale of its 95.7% interest in Koboldo on 16 April 2015 (note 34).

The disposal is expected to be completed within 12 months after the reporting date and accordingly Koboldo has been classified as 'held for sale' and presented separately on the balance sheet as at 31 December 2014.

Koboldo is an alluvial operation located in the Amur region in the Far East of Russia and represents an alluvial operations segment (note 4).

The main categories of assets and liabilities classified as held for sale are set out below.

	31 December 2014	
	Carrying amount US$'000	Fair value less costs to sell US$'000
Exploration and evaluation assets	1,661	475
Property, plant and equipment	18,281	5,227
Prepayments for property, plant and equipment	35	35
Inventories	72	72
Trade and other receivables	1,124	1,124
Cash and cash equivalents	7,719	7,719
Total assets classified as held for sale	28,892	14,652
Trade and other payables	125	125
Deferred tax liabilities	3,005	632
Total liabilities associated with assets classified as held for sale	3,130	757
Net assets of Koboldo	25,762	13,895
Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell as at 31 December 2014	(11,867)	
Fair value less costs to sell [(a), (b)]	13,895	
Attributable to:		
Equity shareholders of Petropavlovsk PLC	13,297	
Non-controlling interests	598	

a) *Based on the indicative cash consideration.*

(b) *Non-recurring fair value measurement treated as Level 3 of the fair value hierarchy.*

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29. Share based payments

The details of share awards operated within the Group's equity-settled share award schemes which were outstanding during the year ended 31 December 2014 are set out below.

	Petropavlovsk PLC LTIP award granted on 12 May 2011	
	Number of Ordinary Shares	Weighted average exercise price £
Outstanding at 1 January 2014	1,236,354	–
Granted during the year	–	–
Forfeited during the year [a]	(1,236,354)	–
Vested during the year	–	–
Outstanding at 31 December 2014	–	–

(a) The awards lapsed unvested on 12 May 2014 as none of the vesting conditions were met.

On 12 May 2011, the Group granted performance share awards under the Petropavlovsk PLC LTIP with 1,524,347 shares allocated to certain Executive Directors, members of senior management and certain other employees of the Group, out of which 1,098,904 shares were held by the EBT and the Company assumed the obligation to issue the remaining shares upon vesting of the LTIP.

Performance share awards would vest or become exercisable subject to the following provisions:

- 70% of the shares subject to the award may be acquired at nil cost based on a condition relating to the total shareholder return (the 'TSR') of the Company compared with the TSR of a selected comparator group (the 'First TSR Condition'); and
- 30% of the shares subject to the award may be acquired at nil cost based on a condition relating to growth in TSR of the Company compared to the FTSE 350 mining index (the 'Second TSR Condition').

The First TSR Condition related to growth in TSR over a three year period relative to the TSR growth of companies in a selected peer group of listed international mining companies (the 'Comparator Group') over the same period.

The First TSR Condition provided for the award to vest or become exercisable as follows:

	% of the award vesting
Within top decile	70%
At median	35%
Below median	–

The Second TSR Condition related to growth in TSR over a three year period relative to the growth in TSR of companies in FTSE 350 mining index (the 'Index Comparator Group') over the same period.

The Second TSR Condition provided for the award to vest or become exercisable as follows:

	% of the award vesting
At median +13.5% p.a.	30%
At median	15%
Below median	–

The fair value of share awards was determined using the Monte Carlo model. The relevant assumptions are set out in the table below.

	Petropavlovsk PLC LTIP performance share awards	
	Vesting based on the First TSR Condition	Vesting based on the Second TSR Condition
Date of grant	12 May 2011	12 May 2011
Number of performance share awards granted	1,067,043	457,304
Share price at the date of grant, £	8.15	8.15
Exercise price, £	–	–
Expected volatility, %	73.32	73.32
Expected life in years	3	3
Risk-free rate, %	1.53	1.53
Expected dividends yield, %	–	–
Expected annual forfeitures	–	–
Fair value per award, £	6.16	5.77

On 31 March 2015, the Remuneration Committee approved a bonus of £555,000 to the Chief Executive Officer, of which 50% is payable in cash and 50% in the form of a Deferred Share Award. The number of shares awarded will be based on the market share price at the date of award, being 1 May 2015. The vesting of this award will be subject to Chief Executive Officer's continued service for a 12 month period from the date of award unless he departs the Company as a 'good' leaver.

30. Analysis of net debt

	At 1 January 2014 US$'000	Net cash movement US$'000	Transferred to assets classified as held for sale [(a)] US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2014 US$'000
Cash and cash equivalents	170,595	(84,325)	(7,719)	(30,471)	–	48,080
Debt due within one year	(158,495)	209,377	–	–	(466,043)	(415,161)
Debt due after one year	(960,517)	12,421	–	–	385,453	(562,643)
Net debt	(948,417)	137,473	(7,719)	(30,471)	(80,590) [(b)]	(929,724)

(a) Note 28.

(b) Being amortisation of borrowings.

31. Financial instruments and financial risk management

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group consists of net debt (as detailed in note 30) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2014, the capital comprised US$1.7 billion (2013: US$2.1 billion).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group adopts a modular approach in developing its projects in order to minimise upfront capital expenditure and related funding requirements. The Group manages in detail its funding requirements on a 12 month rolling basis and maintains a five year forecast in order to identify medium-term funding needs. Following the listing of IRC on the Stock Exchange of Hong Kong Limited, its capital is managed separately by the Independent Board of IRC.

The Group is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

31. Financial instruments and financial risk management continued

Categories of financial instruments

	2014 US$'000	2013 US$'000
Financial assets		
Cash and cash equivalents	48,080	170,595
Derivative financial instruments – cash flow hedge	6,272	62,838
Derivative financial instruments – at fair value through profit or loss	3,158	–
Loans and receivables	20,744	30,915
Available-for-sale investments	112	124
Financial liabilities		
Trade and other payables – at amortised cost	33,575	58,939
Borrowings – at amortised cost	977,804	1,119,012

Financial risk management

The Group's activities expose it to interest rate risk, foreign currency risk, risk of change in the commodity prices, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, gold price risk, credit risk and investment of excess liquidity.

Interest rate risk

The Group's interest rate risk arises primarily from borrowings. The Group is exposed to cash flow interest rate risk through borrowing at floating interest rates and to fair value interest rate risk through borrowing at fixed interest rates. At present, the Group does not undertake any interest rate hedging activities.

The sensitivity analysis below has been determined based on exposure to interest rates for the average balance of floating interest-bearing borrowings.

If interest rates had been 1% higher/lower and all other variables held constant, the Group's loss for the year ended 31 December 2014 would increase/decrease by US$0.11 million (2013: increase/decrease by US$1.91 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from fluctuations in currencies the Group transacts, primarily US Dollars, GB Pounds Sterling and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at period end are set out below.

	Assets		Liabilities	
	2014 US$'000	2013 US$'000	2014 US$'000	2013 US$'000
Russian Roubles	75,390	172,831	40,364	68,450
US Dollars [(a)]	1,519	50	–	8,063
GB Pounds Sterling	5,709	1,851	3,140	2,197
EUR	165	2	690	577
Other currencies	413	389	88	51

(a) US Dollar denominated monetary assets and liabilities in Group companies with Rouble functional currency.

The table set out below illustrates the Group's profit sensitivity to changes in exchange rates by 25% (2013: 10%), 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.

	2014 US$'000	2013 US$'000
Russian Rouble currency impact	8,756	10,438
US Dollar currency impact	380	801
GB Pounds Sterling currency impact	642	35
EUR currency impact	131	57
Other currencies	81	34

Credit risk

The Group's principal financial assets are cash and cash equivalents, comprising current accounts, amounts held on deposit with financial institutions and investments in money market and liquidity funds. In the case of deposits and investments in money market and liquidity funds, the Group is exposed to a credit risk, which results from the non-performance of contractual agreements on the part of the contract party.

The credit risk on liquid funds held in current accounts and available on demand is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies, with the exception of Asian-Pacific Bank, which does not have an officially assigned credit rating. Having performed a high level due diligence, management does not consider the credit risk associated with Asian-Pacific Bank to be high. Asian-Pacific Bank has a wide network of branches in the Amur region and, therefore, is extensively used by the entities of the precious metals segment (note 26).

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets recorded in the consolidated financial statements. The major financial assets at the balance sheet date are cash and cash equivalents held with the counterparties as set out below.

Counterparty	Credit rating	Carrying amount at 31 December 2014 US$'000	Carrying amount at 31 December 2013 US$'000
Asian-Pacific Bank	B+	20,310	22,082
UBS	A	15,240	29,980
VTB	BB+	4,938	6,481
Sberbank	BBB-	3,223	69,400
Alfa-Bank	BB+	345	37,641

Commodity price risk

The Group generates most of its revenue from the sale of gold and iron ore concentrate. The Group's policy is to sell its products at the prevailing market price. In 2014, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18).

Equity price risk

The Group is exposed to equity price risk through the investment in IRC (note 27).

31. Financial instruments and financial risk management continued

Liquidity risk
Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group constantly monitors the level of funding required to meet its short, medium and long term obligations. The Group also monitors compliance with restrictive covenants set out in various loan agreements (note 20) to ensure there is no breach of covenants resulting in associated loans become payable immediately.

Effective management of liquidity risk has the objective of ensuring the availability of adequate funding to meet short-term requirements and due obligations as well as the objective of ensuring a sufficient level of flexibility in order to fund the development plans of the Group's businesses.

The table below details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The amounts disclosed are the contractual undiscounted cash flows and so these balances will not necessarily agree with the amounts disclosed in the balance sheet. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	0–3 months US$'000	3 months –1 year US$'000	1–2 years US$'000	2–3 years US$'000	3–5 years US$'000
2014					
Borrowings					
– Convertible bonds	310,500	–	–	–	–
– Loans	2,250	95,714	240,923	263,273	66,818
Expected future interest payments [(a)]	16,856	36,970	37,686	17,970	1,897
Trade and other payables	33,576	–	–	–	–
	363,182	132,684	278,609	281,243	68,715
2013					
Borrowings					
– Convertible bonds	–	–	310,500	–	–
– Loans	18,523	134,443	97,110	240,793	322,361
Expected future interest payments [(a)]	20,299	40,741	42,434	27,910	14,979
Trade and other payables	58,939	–	–	–	–
	97,761	175,184	450,044	268,703	337,340

(a) Expected future interest payments have been estimated using interest rates applicable at 31 December. Loans outstanding at 31 December 2014 in the amount of US$nill million (2013: US$221 million) are subject to variable interest rates and, therefore, subject to change in line with the market rates.

32. Operating lease arrangements

The Group as a Lessee

	2014 US$'000	2013 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	2,671	3,372

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under a non-cancellable operating lease for office premises, which fall due as follows:

	2014 US$'000	2013 US$'000
Expiring:		
Within one year	313	354
In two to five years	94	524
	407	878

The Group as a Lessor
The Group earned property rental income from continuing operations during the year of US$1.2 million (2013: US$1.5 million) on buildings owned by its subsidiary Irgiredmet.

33. Capital commitments

At 31 December 2014, the Group had entered into contractual commitments in relation to its continuing operations for the acquisition of property, plant and equipment and mine development costs amounting to US$1.2 million (31 December 2013: US$30.4 million), including US$1.2 million in relation to the POX Hub (31 December 2013: US$25.6 million).

34. Subsequent events

The Refinancing

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

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

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

  The New Bonds were issued by the Group's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The New Bonds carry a coupon of 9.00% payable quarterly in arrears and are convertible into redeemable preference shares of Petropavlovsk 2010 Limited which are guaranteed by and will be exchangeable immediately upon issuance for Ordinary Shares in the Company.

  The conversion price has been set at £0.0826 per Ordinary Share, subject to adjustment for certain events, and the conversion exchange rate has been fixed at US$1.5171: £1. The New Bonds were admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange on 18 March 2015.
- Settlement of the Existing Bonds:

  The Existing Bonds with a par value of US$310.5 million (note 20) were settled as follows:

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

- Bank Waivers:

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

The estimated aggregate transaction expenses comprise approximately US$41 million, out of which US$7.8 million were paid as at 31 December 2014. Included in the transaction costs paid as at 31 December 2014 are US$0.4 million expensed during the year and US$7.4 million deferred until transaction completion.

Disposal of Koboldo

On 16 April 2015, the Group entered into a conditional SPA relating to the sale of its 95.7% interest in OJSC ZDP Koboldo ('Koboldo') (note 28). The total cash consideration for the transaction is RUR942 million (an equivalent of c.US$18.7 million) plus reimbursement of VAT for the fourth quarter 2014, payable within prescribed timeframes from the date of entering into the SPA.

Disposal of investments in associates

On 7 April 2015, the Group entered into an SPA to sell its 25% interest in CJSC ZRK Omchak for a total cash consideration of US$1 million.

35. Reconciliation of non-GAAP measures (unaudited)

	2014 US$'000	2013 US$'000
Loss for the period from continuing operations	(182,157)	(513,848)
Add/(less):		
Interest expense	67,705	75,268
Investment income	(1,680)	(888)
Other finance gains	–	(19,365)
Foreign exchange losses	31,270	5,769
Taxation	167,871	(8,867)
Depreciation	143,968	224,804
Impairment/(reversal of impairment) of mining assets and goodwill	(28,935)	411,285
Impairment of exploration and evaluation assets	22,034	94,908
Impairment of ore stockpiles	10,144	55,573
Impairment of investments in associates	9,697	–
Write-down to adjust the carrying value of Koboldo's net assets to fair value less cost to sell	11,867	–
Underlying EBITDA	251,784	324,639

36. Group companies

The Group has the following principal subsidiaries and other significant investments, which were consolidated in this financial information.

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC 31 December 2014	Proportion of shares held by Petropavlovsk PLC 31 December 2013	Proportion of shares held by the Group 31 December 2014	Proportion of shares held by the Group 31 December 2013
Subsidiary						
CJSC Management Company Petropavlovsk	Russia	Management company	100%	100%	100%	100%
Petropavlovsk 2010 Limited	Jersey	Finance company	100%	100%	100%	100%
OJSC Pokrovskiy Rudnik	Russia	Gold exploration and production	43.5%	43.5%	98.61%	98.61%
CJSC Amur Doré	Russia	Gold exploration and production	–	–	–	100%
OJSC ZDP Koboldo	Russia	Gold exploration and production	–	–	95.7%	95.7%
LLC Malomirskiy Rudnik	Russia	Gold exploration and production	–	–	99.86%	99.86%
LLC Albynskiy Rudnik	Russia	Gold exploration and production	–	–	100%	100%
LLC Olga	Russia	Gold exploration and production	–	–	–	100%
LLC Osipkan	Russia	Gold exploration and production	–		100%	100%
LLC Tokurskiy Rudnik	Russia	Gold exploration and production	–	–	100%	100%
LLC Rudoperspektiva	Russia	Gold exploration and production	–	–	100%	100%
OJSC YamalZoloto	Russia	Gold exploration and production	–	–	100%	100%
OJSC Yamalskaya Gornaya Kompania	Russia	Gold exploration and production	–	–	–	74.87%
LLC Iljinskoye	Russia	Gold exploration and production	–	–	100%	100%
LLC Potok	Russia	Gold exploration and production	–	–	100%	100%
LLC Temi	Russia	Gold exploration and production	–	–	75%	75%
LLC ZeyaZoloto	Russia	Gold exploration and production	–	–	–	100%
Major Miners Inc.	Guyana	Gold exploration and production	–	–	100%	100%
Universal Mining Inc.	Guyana	Gold exploration and production	–	–	100%	100%
Cuyuni River Ventures Inc.	Guyana	Gold exploration and production	–	–	100%	100%
LLC Kapstroi	Russia	Construction services	–	–	100%	100%
LLC NPGF Regis	Russia	Exploration services	–	–	100%	100%
CJSC ZRK Dalgeologiya	Russia	Exploration services	–	–	98.61%	98.61%
CJSC PHM Engineering	Russia	Project and engineering services	–	–	94%	94%
OJSC Irgiredmet	Russia	Research services	–	–	99.69%	99.69%
LLC NIC Gydrometallurgia	Russia	Research services	–	–	100%	100%
LLC BMRP	Russia	Repair and maintenance	–	–	100%	100%
LLC AVT-Amur	Russia	Production of explosive materials	–	–	49%	49%
LLC Transit	Russia	Transportation services	–	–	100%	100%
Pokrovskiy Mining College	Russia	Educational institute	–	–	98.61%	98.61%
Associate						
CJSC Verkhnetisskaya Ore Mining Company [a]	Russia	Gold exploration and production	–	–	49%	49%
CJSC ZRK Omchak [b]	Russia	Gold exploration and production	25%	25%	25%	25%

(a) CJSC Verkhnetisskaya Ore Mining Company was a subsidiary until July 2013.

(b) Including subsidiary of CJSC ZRK Omchak, being LLC Kaurchak.

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC		Proportion of shares held by the Group	
			31 December 2014	31 December 2013	31 December 2014	31 December 2013
IRC and its principal subsidiary, joint venture and associate undertakings ('IRC') (c), (d)						
IRC Limited	HK	Management and holding company	–	–	45.39%	48.7%
Principal subsidiaries of IRC						
LLC Petropavlovsk Iron Ore	Russia	Management company	–	–	45.39%	48.7%
LLC Olekminsky Rudnik	Russia	Iron ore exploration and production	–	–	45.39%	48.7%
LLC Kimkano-Sutarskiy Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	45.39%	48.7%
LLC Garinsky Mining & Metallurgical Complex	Russia	Iron ore exploration and production	–	–	45.2%	48.49%
LLC Kostenginskiy Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	45.39%	48.7%
LLC Orlovo-Sokhatinsky Gorno-Obogatitelniy Kombinat	Russia	Iron ore exploration and production	–	–	45.39%	48.7%
LLC Karier Ushumunskiy	Russia	Iron ore exploration and production	–	–	–	48.7%
OJSC Giproruda	Russia	Engineering services	–	–	31.9%	34.2%
LLC Rubicon	Russia	Infrastructure project	–	–	–	48.7%
CJSC SGMTP	Russia	Infrastructure project	–	–	45.39%	48.7%
LLC Amur Snab	Russia	Procurement services	–	–	45.34%	48.7%
Heilongjiang Jiatal Titanium Co., Limited	China	Titanium sponge project	–	–	45.39%	48.7%
LLC Uralmining	Russia	Iron ore exploration and production	–	–	45.39%	48.7%
LLC Gorniy Park	Russia	Molybdenym project	–	–	22.74%	24.4%
Joint ventures of IRC						
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	Vanadium project	–	–	20.88%	22.4%

(c) After taking account of the 0.71% (2013: 0.77%) shares retained within the Employee Benefit Trust operated in conjunction with the long-term incentive schemes of IRC, the Group's effective interest in the equity of IRC is 45.72% (2013: 49.07%).

(d) Factors considered in determining de facto control over IRC are set out in notes 3.9 and 27.

Company Balance Sheet

At 31 December 2014

	note	2014 US$'000	2013 US$'000
Fixed assets			
Tangible assets		54	95
Investments	3	624,436	712,062
		624,490	712,157
Current assets			
Derivative financial assets		3,158	–
Debtors: due within one year	4	254,465	472,614
Debtors: due after one year	4	598,389	320,808
Cash at bank and in hand		2,756	7,736
		858,768	801,158
Creditors: amounts falling due within one year	5	(319,119)	(286,467)
Net current assets		539,649	514,691
Total assets less current liabilities		1,164,139	1,226,848
Creditors: amounts falling due after more than one year	5	(565,676)	(534,945)
Net assets		598,463	691,903
Capital and reserves	7		
Share capital		3,041	3,041
Share premium		376,991	376,991
Merger reserve		–	19,265
Own shares		(12,677)	(12,677)
Convertible bond reserve		48,235	48,235
Other reserves		29	19,320
Profit and loss account		182,844	237,728
Shareholders' funds		598,463	691,903

The accompanying notes are an integral part of this balance sheet.

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 167 to 172 were approved by the Directors on 28 April 2015 and signed on their behalf by:

Peter Hambro
Director

Andrey Maruta
Director

Notes to the Company Financial Statements

For the year ended 31 December 2014

1. Basis of preparation

The Petropavlovsk PLC (the 'Company') balance sheet and related notes have been prepared on a historical cost basis, except for the revaluation of certain financial instruments at fair value in accordance with United Kingdom generally accepted accounting principles ('UK GAAP') and in accordance with UK Company law.

A summary of the principal accounting policies is set out below.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The loss after tax for the year of the Company was US$95.0 million (2013: loss after tax of US$20.2 million), (note 7).

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements' and presenting financial instruments disclosures under the terms of FRS 29 'Financial Instruments: Disclosures'.

The Company is also exempt from disclosing related party transactions under the terms of FRS 8 'Related Party Disclosures' which states that disclosure of related party transactions is not required in parent company financial statements when those statements are presented together with its consolidated financial statements.

2. Significant accounting policies

2.1. Foreign currencies

The functional and presentation currency of the Company is the US Dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities that are denominated in other currencies are retranslated at the rates prevailing on the balance sheet date. Exchange rates used are consistent with the rates used by the Group as disclosed in note 2.10 to the consolidated financial statements. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

2.2. Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of accumulated depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life as follows:

	Average life Number of years
Office equipment	4–7
Computer equipment	3

2.3. Investments

Investments in subsidiary undertakings and joint ventures are initially measured at cost and subsequently carried at cost less provisions for impairment. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognised if the carrying amount of the investment exceeds the higher of net realisable value and the discounted future earnings from the investment.

Other investments are those classified as available-for sale. Available-for-sale investments are initially measured at cost and subsequently carried at fair value. Changes to the fair value of available-for-sale investments are recognised in equity.

2.4. Taxation including deferred taxation

Full provision is made for deferred taxation on all timing differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

2.5. Financial assets and liabilities
Financial assets and liabilities are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective evidence that the financial asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

2.6. Derivative financial instruments
Derivative financial instruments are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument.

Derivative financial instruments embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

2.7. Share-based payments
The Company operates a number of equity-settled share award schemes, the details of which are provided in note 29 to the consolidated financial statements.

The share-based compensation is accounted for as equity-settled in the Company's financial statements and is measured at fair value of the awards at the date of grant. Fair value is determined using the Black Scholes model, Monte Carlo model or a binomial model as deemed most appropriate.

The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions where appropriate.

In accordance with UITF 44 and FRS 20 'Share-based Payment', where a parent company grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled, the subsidiary is required to record an expense for such compensation with a corresponding increase recognised in equity as a contribution from the parent.

2.8. Employee benefit trust
The provision of shares to share award schemes is facilitated by an employee benefit trust.

In accordance with UITF Abstract 38 'Accounting for ESOP trusts', the Company has been determined to be a sponsoring company of the employee benefit trust and therefore in preparing its accounts any own shares held by the employee benefit trust are recorded as own shares, and the carrying value is shown as a deduction in arriving at shareholders' funds until such time as those shares vest unconditionally in employees.

2.9. Dividends
Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

2.10. Operating leases
Rentals paid under operating leases are charged to the profit and loss account as incurred.

3. Investments

	Investments in Group companies US$'000	Investments in associates US$'000	Other investments other than loans US$'000	Total US$'000
Cost				
At 1 January 2014	1,836,612	9,574	116	1,846,302
Additions	17,798	–	–	17,798
Impact of intra-group transfers	(24,155)	–	–	(24,155)
Fair value change	–	–	(10)	(10)
At 31 December 2014	1,830,255	9,574	106	1,839,935
Provision for impairment				
At 1 January 2014	(1,132,993)	(1,247)	–	(1,134,240)
Charge for the year	(73,932) [(a)]	(7,327)	–	(81,259)
At 31 December 2014	(1,206,925)	(8,574)	–	(1,215,499)
Net book value				
At 1 January 2014	703,619	8,327	116	712,062
At 31 December 2014	623,330	1,000	106	624,436

(a) Including US$73,932 million adjustment to reflect changes in the value of the Group's investment in IRC Limited (note 7).

4. Debtors

	2014 US$'000	2013 US$'000
Owed by Group companies	843,592	791,891
VAT recoverable	560	288
Other debtors	8,702	1,243
	852,854	793,422
Due within one year	254,465	472,614
Due after more than one year	598,389	320,808
	852,854	793,422

5. Creditors

	2014 US$'000	2013 US$'000
Due to Group companies	399,149	296,382
Bank loans	481,662	522,142
Trade creditors	2,898	1,801
Accruals and other creditors	1,086	1,087
	884,795	821,412
Due within one year	319,119	286,467
Due after more than one year	565,676	534,945
	884,795	821,412

6. Taxation

As at 31 December 2014, the Company has tax losses available to carry forward in the amount of US$152.9 million (2013: US$139.3 million).

7. Statement of reserves and reconciliation of movement in shareholders' funds

	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Convertible bond reserve (a) US$'000	Own shares (b) US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2013	2,891	377,140	130,011	59,032	(14,483)	17,180	142,326	714,097
Loss for the year, including transfer from merger reserve	–	–	(110,746) (c)	–	–	–	90,578	(20,168)
Dividends	–	–	–	–	–	–	(5,774)	(5,774)
Bonus Share issue	150	(149)	–	–	(1)	–	–	–
Share based payments	–	–	–	–	–	3,878	–	3,878
Vesting of awards within Petropavlovsk PLC LTIP				–	1,807	(1,608)	(199)	–
Buy-back of Convertible Bonds	–	–	–	(10,797)	–	–	10,797	–
Revaluation of available-for-sale investments	–	–	–	–	–	(130)	–	(130)
Balance at 1 January 2014	3,041	376,991	19,265	48,235	(12,677)	19,320	237,728	691,903
Loss for the year, including transfer from merger reserve	–	–	(19,265) (c)	–	–	–	(75,711)	(94,976)
Share based payments	–	–	–	–	–	1,546	–	1,546
Awards within Petropavlovsk PLC LTIP forfeited	–	–	–	–	–	(12,153)	12,153	–
Revaluation of available-for-sale investments	–	–	–	–	–	(10)	–	(10)
Transfer to retained earnings	–	–	–	–	–	(8,674)	8,674	–
Balance at 31 December 2014	3,041	376,991	–	48,235	(12,677)	29	182,844	598,463

(a) On 15 February 2010, Petropavlovsk 2010 Limited issued US$380 million bonds which are convertible into redeemable preference shares in Petropavlovsk 2010 Limited and are guaranteed by, and will be exchangeable immediately upon issuance, for ordinary shares in Petropavlovsk PLC. The Company has recognised the exchange option in equity, and its value has been determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is not subsequently re-measured. The provision of the exchange option to Petropavlovsk 2010 Limited has been recognised as a capital contribution to that entity. Details on Convertible Bonds are set out in note 20 to the consolidated financial statements.

(b) The reserve for own shares arises in connection with the Employees Benefit Trust (EBT), a discretionary trust established and operated in conjunction with the Group's long-term incentive plans (LTIPs). Details of the Group's LTIPs are set out in note 29 to consolidated financial statements. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the Company's shares purchased by the trust which have not vested unconditionally in employees at the balance sheet date.

(c) Being adjustment to reflect changes in the value of the Group's investment in IRC Limited (note 3).

8. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain subsidiaries. Please also see note 27 to the consolidated financial statements.

9. Operating lease arrangements

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under a non-cancellable operating lease for office premises, which fall due as follows:

	2014 US$'000	2013 US$'000
Expiring:		
Within one year	313	354
Within two to five years	94	524
	407	878

10. Directors' remuneration

There were six Executive Directors who held office at the end of the year (2013: six Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 87 to 103 of this Annual Report.

11. Subsequent events

Please see note 34 to the consolidated financial statements.

Appendix, Glossary and Definitions

Important information
Past performance cannot be relied on as a guide to future performance. Some figures may be rounded. The content of websites referred to in this document does not form part of this document.

Forward-looking statements
This release may include statements that are, or may be deemed to be, forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'estimates', 'plans','targets', 'projects', 'anticipates', 'expects', 'intends', 'may', 'will' or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, targets, future events or intentions. These forward-looking statements include all matters that are not historical facts and speak only as at the date of this document. They appear in a number of places throughout this release and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and expectations of the industry.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates may differ materially from those described in, or suggested by, any forward-looking statements contained in this release. In addition, even if the development of the markets and the industry in which the Group operates are consistent with the forward-looking statements contained in this release, those developments may not be indicative of developments in subsequent periods. A number of factors could cause developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations (including the US Dollar and Russian Rouble), the Group's ability to recover its reserves or develop new reserves, changes in its business strategy, political and economic uncertainty. Save as required by the Listing and Disclosure and Transparency Rules, the Company is under no obligation to update the information contained in this release.

Nothing in this publication should be considered to be a profit forecast and no statement in this document should be interpreted to mean that earnings per share for the current or future financial years would necessarily match or exceed the historical published earnings per share. This document does not constitute or form part of an invitation to sell or issue, or any solicitation of any offer or invitation to purchase or subscribe for, any securities.

Ore Reserve and Mineral Resource reporting – basis of preparation
In line with the approach adopted in previous years, the Group has reported its hard-rock Mineral Resources and Ore Reserves in accordance with JORC Code. The assets are subdivided into 'core' and 'non-core' projects. Core projects are classified as the Group's four operational mines, namely: Pokrovskiy, Pioneer, Malomir, Albyn and all their satellites which are scheduled for production through the mines' existing processing facilities. Mineral Resource and Ore Reserve estimates for these assets have been audited by WAI in accordance with JORC Code (2012).

The Group considers its 'non-core' projects to be those assets which have good prospects, but are not located near current processing facilities. These include: Tokur (Amur Region), Visokoe (Krasnoyarsk) and Yamal assets (the Petropavlovskoe-Nogodnee Monto deposits). Mineral Resources and, where appropriate, Ore Reserves for these projects have not changed since 2011. These estimates has not been updated and therefore reported in accordance with JORC Code (2004), which was the current version of the Code at the time of the estimates. The estimates where reviewed and signed off by WAI in March 2011 (Yamal, Tokur) and February 2012 (Visokoe).

The Group reports Mineral Resources and Mineral Reserves for its alluvial assets in accordance with the NAEN Code. The NAEN Code is recognised by European Securities and Markets Authority. The NAEN Code shares the same template with the JORC Code: Mineral Reserves reported in accordance with the NAEN Code are inclusive of mining dilution and mining losses.
The NAEN Code allows conversion between the Russian GKZ C_1, C_2 into Proved and Probable Reserves and also conversion of C_1, C_2 and P_1 into respective Measured, Indicated and Inferred Resources.

Adjusted profit/(loss)	adjusted profit/(loss) is a profit/(loss) from continuing operations excluding the effect of certain non-cash and one-off items which management believes are not reflective of the Group's underlying performance for the reporting period, such as impact of foreign exchange gains and losses, related effect on deferred taxation, impairment charges, gains and losses related to disposals and other one-off transactions. For a calculation of adjusted profit/(loss), please refer to the section Net result from continuing operations of the Chief Financial Officer's Statement
All-in sustaining cash costs	all-in sustaining cash costs include both operating and capital costs required to sustain gold production on an ongoing basis. All-in costs are comprised of all-in sustaining costs as well as capital expenditures for major growth projects or enhancement capital for significant improvements at existing operations. All-in sustaining costs and all-in costs are calculated in accordance with guidelines for reporting all-in sustaining costs and all-in costs published by the World Gold Council in June 2013. For a calculation of all-in-sustaining costs and all-in costs, please refer to the section All-in costs of the Chief Financial Officer's Statement
alluvial	material which is transported by a river and deposited at points along the flood plain
Au	chemical symbol for the element gold
autoclave	equipment used in the pressure oxidation process to enable gold extraction from refractory ores
cut-off grade	the lowest grade of mineralised material considered economic, used in the reporting of Ore Reserves and Mineral Resources
Board	the Board of Directors of the Company
Bondholder	depending on the context, either holders of the Group's outstanding US$310.5 million 4% guaranteed convertible bonds which expired on 18 March 2015 or holders of the Group's new US$100 million 9% convertible bonds due 2020, which were issued as part of the Refinancing
Directors	the Directors of the Company
Underlying EBITDA	the result for the period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, amortisation and impairment charges. A reconciliation of profit for the year and underlying EBITDA is set out in note 35 of the consolidated financial statements
EPS	Earnings (Loss) Per Share: Basic EPS is calculated as the net profit attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the reporting period
feasibility study	an extensive technical and financial study to assess the commercial viability of a project
flotation	mineral processing technique used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
the Foundation or the Petropavlovsk Foundation	the Petropavlovsk Foundation for Social Investment
geochemical prospecting	techniques which measure the content of specified metals in soils and rocks; sampling defines anomalies for further testing
geophysical prospecting	techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies
g/t	gram per metric tonne
grade	relative quantity or the percentage of ore mineral or metal content in an ore body
Group	the Company and its subsidiaries
heap-leach	process used for the recovery of metal ore from typically weathered low-grade ore. Crushed material is laid on a slightly sloping, impervious pad and uniformly leached by the percolation of the leach liquor trickling through the beds by gravity to ponds. The metals are recovered by conventional methods from the solution
HSE Committee	Health, Safety and Environmental Committee
ICBC	Industrial and Commercial Bank of China

***Indicated* Resource**	as defined in the JORC Code, is that part of a mineral resource which has been sampled by drill holes, underground openings or other sampling procedures at locations that are too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data is known with a reasonable degree of reliability. An *Indicated* Mineral Resource will be based on more data and therefore will be more reliable than an *Inferred* Resource estimate
***Inferred* Resource**	as defined in the JORC Code, is that part of a mineral resource for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, which may be limited or of uncertain quality and reliability
IRC	IRC Limited, the Group's Hong Kong-listed subsidiary
JORC	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia
K&S	the Kimkan and Sutara deposits, which are being developed as one project by IRC
Kapstroi	OOO Kapstroi, an indirect subsidiary of the Company. Specialising in mine construction, Kapstroi has so far carried out the majority of the construction work for the Group
KPI	Key Performance Indicator, used to monitor progress and performance against strategic objectives and to benchmark the Group's performance
Ktpa	thousand tonnes per annum
LTIFR	Lost Time Injury Frequency Rate: the time lost as a result of an accident or fatality, measured as the number of accidents per million man hours worked
mill	equipment used to grind crushed rocks to the desired size for mineral extraction
mineralisation	process of formation and concentration of elements and their chemical compounds within a mass or body of rock
Mineral Resource	concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for eventual economic extraction. The location, quantity, grade geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are subdivided into *Inferred*, *Indicated* and *Measured* categories
Mtpa	million tonnes per annum
OH&S	occupational health and safety
open-pit	large excavation developed to extract a mineral deposit located near the surface
ore	mineral deposit that can be extracted and marketed profitably
ore body	mining term to define a solid mass of mineralised rock that can be mined profitably under current or immediately foreseeable economic conditions
Ore Reserve	the economically mineable part of a *Measured* or *Indicated* Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore Reserves are sub-divided in order of increasing confidence into *Probable* and *Proven*
ounce or oz	troy ounce (= 31.1035 grams)
overburden	material that lies above the ore deposit
placer deposit	see entry for 'alluvial'

POX	pressure oxidation
pressure oxidation	a high temperature and pressure process in which 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 the proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material processed
Refinancing	the Rights Issue, the Bond Restructuring and the Bank Waivers, as defined in the Prospectus issued by the Company on 2 February 2015
refractory ore	ore material that is difficult to treat for recovery of the valuable element
R&D	research and development
RIP	resin-in-pulp; a processing technique by which a resin medium is used to absorb the desired element out of solution or pulp
Russian GKZ Standard Classification System	the means by which Russian reserves are assigned to classes based on the degree of reliability of data and which indicate their comparative importance for the national economy
Senior Lenders	each of the lenders in relation to the banking facilities described in section 5 of Part 5 (Operating and Financial Review) of the Prospectus issued by the Company on 2 February 2015
stockpile	an accumulation of ore or mineral formed to create a reserve for loading or when demand slackens or when the process plant is unequal to handling mine output
strike	direction in which a horizontal line can be drawn on a plane, which determines the direction in which to measure the true dip of an ore body
strike length	longest horizontal dimension of an ore body or zone of mineralisation
strip ratio	In mining, *stripping ratio* or *strip ratio* refers to the ratio of the volume of *overburden* (or waste material) required to be handled in order to extract some volume of ore. For example, a 3:1 stripping ratio means that mining one cubic metre of ore will require mining three cubic metres of waste rock
TTC/oz	total cash costs per ounce of gold sold
tailings	material that remains after all metals/minerals considered economic have been removed from the ore
trench sampling	sampling of a trench cut through the rock, generally in the form of a series of continuous channels (channel samples)
tpm	tonnes per month
unit cost of mining	unit costs are the costs incurred by the Group to mine one m^3 of rock and process one tonne of ore
Yamal, Yamal region	Yamalo-Nenets Autonomous District of Russia

Shareholder Information

Shareholder queries
The Company's share register is maintained by the Company's Registrar, Capita Asset Services. Shareholders with queries relating to their shareholding should contact Capita directly using one of the methods listed below.

Capita Asset Services
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone Helpline: 0871 664 0300
(calls cost 10 pence per minute plus extras, lines are open 8.30a.m.- 5.30p.m. Monday to Friday) and outside the UK +44 (0) 208 639 3399

Online: ssd@capitaregistrars.com
(from here you will be able to email Capital with your enquiry).

For more general queries, shareholders should consult the 'Investors' section of the Company's corporate website.

Managing your shares online
Shareholders can manage their holdings online by registering with Capita's share portal service. This is an online service provided by Capita which enables you to view and manage all aspects of your shareholding securely. The service is free and available 24/7 at your convenience. Shareholders, whose shares are registered in their own name, can:

- view holdings plus indicative price and valuation
- view movements on your holdings
- view dividend payment history
- change your address
- register or change your email address
- sign up to receive communications by email instead of post
- access the online voting service.

Useful contacts

Petropavlovsk Registered Office
11 Grosvenor Place
Belgravia
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Registered in England and Wales
(no. 4343841)

Online for general queries:
contact@petropavlovsk.net

Head of External Communications
Dr Alya Samokhvalova

Company Secretary
Amanda Whalley ACIS

Additional documents
Shareholders are encouraged to sign up to receive news alerts by email. These include all of the financial news releases throughout the year that are not sent to Shareholders by post.

The Directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under the relevant accounting standards and legislation.

Annual General Meeting 2015
This year's Annual General Meeting (AGM) will be held at 3 More London Riverside, London SE1 2AQ. The meeting will commence at 12 noon. Shareholders who wish to attend the AGM are asked to read the accompanying notes to the Notice of the Meeting which explain the documentation required by Shareholders in order for them to gain entry to the meeting.

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