Annual Report 2017

PETROPAVLOVSK

Our Values

Responsibility

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

Innovation

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

Integrity

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

Excellence

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

Sustainability

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

Annual Report 2017

Petropavlovsk is one of Russia's major gold mining companies, in terms of both production and Reserves and Resources. It is amongst the most established and the most experienced vertically integrated gold producers in the Far East of Russia. The Company focuses on creating value for its shareholders, employees and other stakeholders by safely and responsibly exploring, mining and producing a stable output of low-cost gold.

Download a digital copy

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

You can also now access key highlights of the report online.
www.petropavlovsk-2017.net

Highlights

Petropavlovsk's key area of focus is the Amur region in the Russian Far East, where it has operated since 1994. The Company is one of the leading employers and contributors to the development of the local economy in the region, which benefits from well-developed infrastructure, access to hydroelectric power and a strong mining tradition.

Key 2017 financial figures

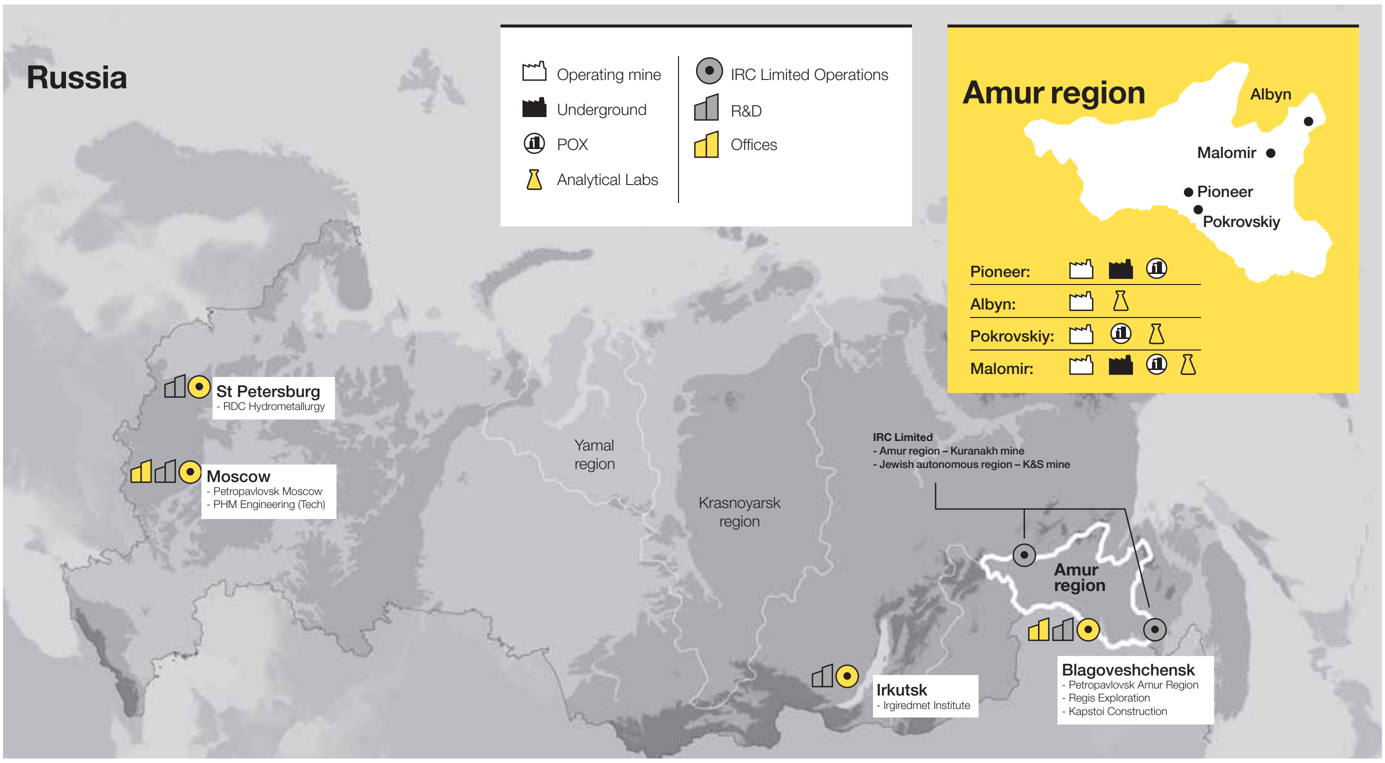
Revenue
US$ 587.4m
(2016: US$540.7m)

Total Cash Costs◆
US$ 741/oz
(2016: US$660/oz)

All-in Sustaining Costs◆
US$ 963/oz
(2016: US$807/oz)

Underlying EBITDA◆
US$ 196.8m
(2016: US$200.1m)

Net Profit
US$ 41.5m
(2016: US$31.7m)

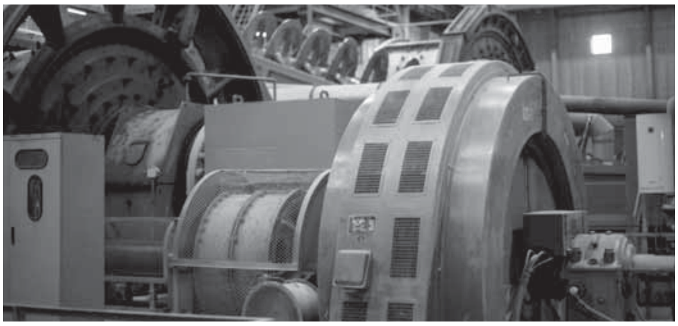


◆ Throughout this document, when discussing the Group's financial performance, reference is made to a number of financial measures, known as Alternative Performance Measures (APM), which are not defined or calculated in accordance with IFRS. Go to pages 197 to 203 for more information on our APMs.

At a Glance

3 open pit gold mines, c.6.8Moz of gold produced to date

20.86Moz JORC Resources including 8.15Moz Reserves



c.15.5Mtpa of plant processing capacity

Production of c.440koz p/a

For information on our operations go to pages 32 to 41 and for information on our Reserves and Resources go to pages 53 to 57.

Untapped exploration potential

POX Hub staged commissioning scheduled from Q4 2018

Experienced management team and skilled workforce

c.US$350m market cap

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Chairman's Statement

Ian Ashby

Tragically, during 2017 three workers lost their lives at our operations. On behalf of the Board, I extend our sincere condolences to the families, friends and work colleagues affected. We have an intractable commitment to ensuring a safe work environment for all people that participate in our business. To this end, we will be launching a program during 2018 that will identify the key fatality risks to our business, around which we will develop actions to either eliminate or definitively control these risks. I will be taking personal interest in this initiative.

Notwithstanding the general uplift in prices for mineral commodities over the last twelve months, the gold price has experienced volatility, starting the year at US$1,151/oz, rising to US$1,346/oz in September and falling back to US$1,291/oz at year end, which was related to the general uncertainty around the overall trajectory of the global economy. The volatility continued into 2018 with gold hitting US$1,350/oz in January 2018. Against this backdrop, Petropavlovsk underwent a year of substantial transformation, focusing on the timely delivery of the Company's stated objectives: the development of the POX Hub, the commissioning of underground mining operations, and the optimisation of the Company's capital structure.

During the year, the Company made good progress with its development plans whilst achieving solid operational results and maintaining continued financial discipline. Group production was almost 440,000oz in 2017, a 10% increase on the previous year and in line with guidance. Both of the Company's flagship mines, Pioneer and Albyn, significantly outperformed the previous year's production. This result is even more impressive considering that in general the team treated lower grade material than in the previous year, and that Pioneer, Pokrovskiy and Malomir had decreased recovery rates due to the more refractory nature of the ores mined. These factors also put upward pressure on our costs.

We continued the transition to underground operations at both Pioneer and Malomir in 2017. These simultaneous developments proved to be challenging and led to some delays with the original commissioning timetable. Initial development delays at Malomir were driven by subcontractor mobilisation being longer than planned but the impact was well mitigated by management and did not have a material impact on total production. By year end, Malomir was producing at full design capacity. Issues at Pioneer were due to unexpected underground water and took longer to manage, however I am pleased to report that due to the high quality work of our engineering team, these problems are now resolved and Pioneer is expected to ramp up to full capacity during 2018.

This year marks the beginning of a new era for Petropavlovsk with the closure of our Pokrovskiy mine, as the site is being transformed into a key component of the POX Hub, our core organic growth development. The POX Hub will enable us to unlock the value otherwise inaccessible in the approximate 4Moz of refractory gold reserves. Construction progress at the POX Hub is at 80% as of the publishing of these results and remains on schedule for commissioning in the fourth quarter of 2018.

The POX Hub is a unique project. Our scientists and engineers have worked enthusiastically to optimise the POX process technology to match the types of ores we are planning to process. In the course of this work we have patented several of our technological findings, which are being implemented at Petropavlovsk for the first time. Distinctive features of the POX plant are its robust design with four autoclave units in parallel, and flow sheet flexibility, which allows the processing of gold concentrates with different chemical and metallurgical characteristics at the same time. This flexibility was extensively tested at both laboratory and at bench scale in our Company owned test facilities. This gives me confidence that the necessary technical work has been done to de-risk commissioning, and facilitate a timely and smooth ramp up to full capacity.

Petropavlovsk has been successful in its exploration activities for more than 20 years. Our geologists have a long history of exploration success, and in 2017 over one million ounces of gold were added to total Group Resources, including over half a million ounces added to Reserves. It is important to note that 70% of these new Reserves and Resources are non-refractory, and can therefore be treated using our current processing facilities. This will assist in further de-risking and smoothing our production profile as we complete the construction and commissioning of the POX Hub. The 2018 production schedule provides for about 120,000oz of newly discovered non-refractory ounces to be treated at our existing resin-in-pulp plants. These additions to the reserve base give us further confidence in our ability to generate positive cash flows during the final period of the current Capital Expenditure◆ programme.

"Petropavlovsk underwent a year of substantial transformation, focusing on the timely delivery of the Company's stated objectives: the development of the POX Hub, the commissioning of underground mining operations, and the optimisation of the Company's capital structure."

◆ Go to pages 197 to 203 for more information on our APMs.

In the medium term, there remains significant prospectivity at Albyn, Malomir and Pioneer for the discovery of additional non-refractory and refractory gold discoveries, which would add to our existing 20Moz of resources. The exploration program remains focused on brownfield activities as an effective way to maximise the value of Group production facilities for the longer term, and is focused on high grade targets as a means of optimising cash flows, which will assist financial flexibility. The 26% increase in underground resources has helped to bolster the current underground developments. The progress made during the year provides a strong platform for further exploration success in 2018, where we have allocated US$16m to brownfield definition drilling. We will provide regular updates to the market as the drilling programme progresses.

In addition to our gold business, Petropavlovsk also holds a 31.1% equity stake in the Hong Kong listed iron ore miner IRC, which produced its first high grade iron ore concentrate from the K&S deposits during 2017. The K&S project was financed by the Chinese bank ICBC. In 2017, ICBC agreed to restructure the remaining K&S project finance facility repayments of US$234m, of which Petropavlovsk is guarantor. The resulting debt service holiday means that two repayment instalments originally due in 2017 are now to be repayable as part of five subsequent instalments.

The Non-Executive Directors (including myself) are still relatively new to their roles within the Company following the Board changes resulting from the 2017 Annual General Meeting. Bruce Buck, Garrett Soden, and I were proposed for appointment by certain shareholders as Independent Non-Executive Directors, following which I was appointed by the Board to act as its Chairman.

“The POX Hub will enable us to unlock the value otherwise inaccessible in the approximate 4Moz of refractory gold reserves.”

Following our appointment the Board’s priorities have been to:

- ensure that POX is delivered on time and on budget;
- refinance the Group’s bank debt to provide medium term financial stability and flexibility for the business. This has been achieved through the successful issuance, in November 2017, of US$500m 8.125% Guaranteed Notes due 2022;
- ensure the successful ramping up of the Group’s underground mining operations, maximising operational efficiency and cashflow potential, whilst ensuring the safety of our employees and contractors; and
- seek new options to resolve the potential liability of the Company’s guarantee to ICBC in respect of IRC’s loan facility and maximise the value of our equity interest in IRC.

One of the Board’s key focus areas during 2017 was de-risking the Company’s development plans, which included focusing on securing free cash from the operating business and improving the Company’s capital structure. As it was mentioned above in November 2017, we launched a bond issue to refinance the Company’s bank debt as a means of improving the maturity profile in line with our development plans. The bond issuance was well-received by the investment community and US$500 million was raised, demonstrating the market’s confidence in our development projects. This has provided greater stability to the Group and significantly improved our capital profile by optimising our repayment plan, which is now aligned with our development plans. The bonds also provide a lower cost of finance.

During 2018, I have also welcomed Adrian Coates to the Board as an Independent Non-Executive Director, and Bektas Mukazhanov as a Director. These appointments coincided with the resignation of Andrey Maruta who is currently Chief Financial Officer and a member of the Board. Andrey has been an important part of the Petropavlovsk Board and senior management team for a number of years, and will assist in the transition to the new CFO. We wish Andrey all the best in his future endeavours.

The Board looks forward to working together with the augmented team, maintaining a broad perspective and an appropriate range of skills and expertise to provide Petropavlovsk management with the best possible guidance.

I also acknowledge the departure and contribution of CEO Dr Pavel Maslovskiy, who resigned in July 2017. In the interim, group operational activities have been ably led by Sergey Ermolenko, who stepped in as Interim CEO and has provided strong support to the Board during its search for a permanent replacement. Sergey was uniquely positioned to assist the Board in its continued focus on operational performance, and we are grateful to him and his team for delivering on all our operational and development targets in 2017.

At the beginning of 2018, following a comprehensive search, Roman Deniskin was appointed as CEO, commencing 16 April 2018. Roman brings all the necessary experience and leadership skills as we enter a new phase in the Company's history with the completion of the POX Hub and the development of our underground mining operations.

"In 2017, the Group strengthened its commitment to acting in a responsible manner, protecting the environment, safeguarding the welfare of its employees and maintaining good relationships with the communities in which it operates. We are proud of the leading role we play in the region."

Petropavlovsk has a presence in many communities and remains committed to carrying out all its activities in a sustainable manner. The Group's success to date has been complemented by its commitment to act safely and responsibly and to build its team organically, via internal career development opportunities and educational programmes. In 2017, the Group strengthened its commitment to acting in a responsible manner, protecting the environment, safeguarding the welfare of its employees and maintaining good relationships with the communities in which it operates. We are proud of the leading role we play in the region.

I am pleased to report that during the year our environmental management system was accredited as compliant with GOST R ISO 14001-2016 (ISO 14001:2015), which is a globally recognised international standard. The accreditation applies to each of the Group's mines and is a wonderful acknowledgment for all those involved.

Additionally during the year, and as a means to improve our relationship with our local stakeholders, we engaged a third party to undertake a review of Petropavlovsk's relationships with local communities. Whilst there were no material adverse findings from the review we have developed an action plan to better communicate and more effectively implement our safety and sustainability policy. We have also developed a Grievance Procedure, which enables members of the public and other stakeholders to raise complaints or issues concerning Petropavlovsk activities, and that assures these complaints will receive due consideration and a written response. The Grievance Mechanism is currently being discussed with the view to it being implemented in 2018. Once in place, individuals will be able to register complaints online, by post, by phone or in person. During the year, 1,958 people were trained at the Pokrovskiy Mining College, Petropavlovsk's main educational asset, which for nine years has prepared qualified graduates for the Group. Today it is a progressive, multi-level, innovative educational institution, implementing a wide range of educational programs in-house.

Petropavlovsk is the first and so far the only company in Russia that has decided to follow the success of Western countries and provide opportunities for women to work as drivers of 90-ton haul trucks. They are trained at the Pokrovskiy Mining College and last year we had 39 women drivers successfully operating CAT-777 at our mines. This year, as part of our commitment to providing equal opportunities, we reported a 5% increase in female employment.

Although one of our focus areas in 2017 was on controlling our cost base, we aim to do so in a way that reflects our responsibilities to the communities and the environment in which we operate. I am therefore delighted with the demonstrable progress. The Group continued to maintain a strong record in environmental management, reporting zero license violations. There was no air pollution, soil, surface or ground water contamination during 2017.

The safety of our employees and the communities in which we work is Petropavlovsk's number one priority; the Group has a zero fatality target across its operations. As I mentioned previously, we sustained three fatalities during 2017, which is unacceptable. Comprehensive investigations have been conducted and appropriate corrective measures have been taken in attempt to ensure that we are not exposed to these types of events in the future. As a part of our response to the fatalities at our operations, a benchmarking study of safety performance, measured by lost time injury frequency rate, has been conducted by SLR Consulting. We are also developing an incident response plan to support our goal in avoiding all injuries and improving safety performance throughout the Group.

2018 Outlook

As we look ahead into 2018, we see a year in which the strategic elements of past decisions should come to fruition. This is a year in which the Company expects to deliver lower cost ounces from fully developed underground operations, and expects to commence production from sizeable refractory resources. This provides the platform to steadily increase gold output, delivering greater cash flows, and providing investors with significant upside both from the point of view of increased output and a longer mine life.

Some of the cost challenges evident in the Russian gold mining industry recently may persist in 2018 and this is one reason we remain committed to our strategy of reducing costs sustainably, producing profitable ounces and delivering positive free cash flow through the cycle. With this approach we expect to maintain healthy margins and safeguard our financial strength to the benefit of all of our stakeholders.

Our production guidance of 420,000-460,000oz is based on our mining schedules for open pit and underground operations, as well as our estimates of the first production from the POX Hub towards the end of 2018.

This will be the last year of anticipated significant Capital Expenditure◆ for the Group. Going forward, with a much-reduced Capital Expenditure◆ profile, Petropavlovsk is strongly placed to take advantage of value-accretive organic and corporate opportunities.

As a final note, I would like to thank all my colleagues on the Board for the time and effort they have devoted to the Company during the year. In addition - and on behalf of the Board, I want to thank the executive management and their teams who have contributed to our success in 2017, and look forward with great positivity to 2018 and beyond.

Ian Ashby
Chairman

"Going forward, with a much-reduced Capital Expenditure◆ profile, Petropavlovsk is strongly placed to take advantage of value-accretive organic and corporate opportunities."

◆ Go to pages 197 to 203 for more information on our APMs.

Interim CEO's Statement

Sergey Ermolenko

For the operational team on the ground and I, 2017 was the first full year in Petropavlovsk's journey of strategic transformation to turn the Group into a focused, lean and innovative gold mining company that generates meaningful free cash flow and provides investors with superior returns by processing refractory and non-refractory ores at competitive prices. We have made significant progress in this regard, which is critical to our development plans and long-term outlook.

From an operational point of view our 2017 focus was on three main areas of activities:

- Delivering on our production targets at planned margins to create cash flows to support the Group's development plans.
- Continuing our development plans on schedule to ensure the timely commissioning of the POX Hub in Q4 2018 and preparing our underground operations to run at full capacity in 2018.
- Replenishing depleted ounces of gold with material suitable for production through our current facilities in the near-term to de-risk our ambitious development plans.

In working hard to fulfil these plans we were guided by our responsible principles of performance in every area of our operations.

Production and Operations
During 2017 we managed to achieve a 10% increase in year on year production. Our target for the year was a challenge as it did include production from our underground operations at Pioneer and Malomir, which we only started developing at the beginning of the last year. However, due to our conservative approach to budgeting and timely adjustments to the initial mine plan, production for the year fell comfortably within the guided range of 420 to 460koz. We also benefitted from a one-off addition to production due to the successful implementation of a resin treatment facility at our RIP plants improving operational efficiencies, specifically reducing the amount of gold-in-circuit (GIC).

In 2017 our specialists had to manage two key challenges: declining grades and decreasing recovery rates at two of our flagship mines, Pioneer and Albyn. This was due to a larger portion of transitional material in the blend, and due to the more refractory nature of the remaining open pit reserves. In order to manage this we worked to optimise our operations and managed to increase overall RIP throughput by 3%, whilst rock movement was 7% lower than in 2016, meaning less mining expenditure.

The Company's input costs are also heavily reliant on the Rouble/Dollar exchange rate dynamic, which has a significant effect on the Group's operating costs. This resulted in Total Cash Costs♦ of US$741/oz for 2017, higher than the original guidance and due to the 13% appreciation of the Russian Rouble against the Dollar, as well as rising domestic prices as a consequence of the global oil price rally, lower recoveries at Pioneer, Pokrovskiy and Malomir and lower grades at Pioneer, Pokrovskiy and Albyn were the main factors negatively affecting our costs this year.
In particular, electricity costs and the cost of diesel increased by 31% and 28% respectively in US Dollar terms. Energy prices constitute a significant portion of our costs (c.25%), and the team worked hard to offset the negative effect of this increase. A mining tax concession applied in 2017 was also beneficial to our cash costs, helping us to achieve EBITDA♦ in line with the previous year at US$197m, alongside further optimisation of our operations and our cost cutting programme, and with help from increased gold production volumes and an Average Realised Gold Price♦ of US$1,262/oz, offsetting a 12% increase in costs. Management was also able to deliver a more than threefold increase in net cash from operating activities of US$124m, which gives us further confidence in the execution of the development projects that are under way.

In 2017, we completed a total of 6,730m of underground development at Pioneer and Malomir and commenced stope mining; both underground mines are now fully operational. This was achieved in spite of the fact that developing underground operations is new to the executive team. However, we also experienced some initial setbacks. Whilst carrying out excavation of the underground mine at North East Bakhmut, Pioneer, we have encountered challenging geotechnical conditions and at the Quartzitovoye underground mine and experienced some problems with the mobilisation of machinery. However I am pleased to report that at Malomir, we achieved the first contribution to our production from underground mining, and a total of 110kt of high grade underground ore was produced during the year.
The underground mine at Malomir is now working at full capacity and is expected to contribute a significant amount to Malomir gold output during 2018, whilst we transition to flotation and refractory processing there. As of the beginning of 2018, the NE Bakhmut underground mine at Pioneer has also reached sustainable levels of production and is expected to ramp up slowly to its full planned capacity during the year. It is expected to contribute low cost ounces to Pioneer production over the next six years and beyond. The input from both underground mines is very important for our production plans in 2018, as these areas will be a source of high grade material, improving average grades and recoveries of the total blend and thus decreasing production costs. As such, we are expecting underground areas at Pioneer to contribute c.3.7g/t material and c.6.3g/t material at Malomir.

I would like to take this opportunity to thank Petropavlovsk's operational team for their professionalism and hard work, which led to goals being achieved in spite of geological and engineering challenges.

POX Hub Development
2017 was the year that we fully resumed active construction of the POX plant, which was placed on hold from 2015 to 2016. Construction progressed well in 2017, placing us in a strong position to commence the commissioning of the POX plant in Q4 2018, on time and on budget. First gold production from Malomir concentrate is expected by the end of the year. With earth and civil construction works almost complete, and the autoclave vessels and oxygen plant in place, the development of the POX Hub is now entering its final stages. We are now completing welding work on the high and low pressure pipes, and receiving outstanding equipment to be installed prior to the commissioning of POX.

Stage 1 of the Malomir flotation plant with a capacity of 3.6Mtpa is almost complete, with first concentrate production expected in Q2 2018. As part of our cash flow optimisation programme, we were able to optimise refractory concentrate production at Malomir, delaying the start of the flotation plant by approximately four months compared to previous plans. This has allowed us to increase Malomir RIP plant utilisation in 2018, improving non-refractory production and also reducing our future concentrate stockpile.

The optimisation of our POX development plan also resulted in an approximate two month extension of the Pokrovskiy RIP plant operations, which were originally scheduled to stop in January 2018. This meant we were able to have additional production from the original Pokrovskiy project in Q1 2018. Operations at the RIP plant have now stopped as the site is refurbished and integrated into the POX Hub.

♦ Go to pages 197 to 203 for more information on our APMs.

Exploration, Mineral Resources and Ore Reserves
Our 2017 exploration programme was a strong mark of success for our geological team, resulting in an overall increase in both Mineral Resources and Ore Reserves in spite of depletion.

Nearly 1.2Moz of gold Resources were identified, including nearly 0.7Moz of Reserves. Notably this includes new open pit Reserves at Katrin, a recently discovered, very promising satellite deposit near Pioneer. It is important that Katrin is a non-refractory discovery identified south of Pioneer in late 2016 and as such is expected to contribute to 2018 production. The deposit was further explored during 2017 and it has been proven to a strike length of 1km, and the zone of mineralisation is open in both strike directions. The material from this deposit is planned to be processed through the current facilities in the near to mid-term.

New open pit reserves were also established at Pioneer's NE Bakhmut zone, this ore is also expected to contribute to 2018 production.

Other significant open pit non-refractory Resource and Reserve additions were at Albyn's satellites, where we are planning to commence production in 2019. These discoveries are expected to improve mid and long term production at the Albyn project.

2017 exploration significantly improved the prospects of our underground operations. Mineral Resources for potential underground mining increased by 26% and indicate two more sites for underground mining at Pioneer, which can be brought into production by the end of 2018.

The works carried out in 2017 indicated a number of very exciting prospects, which we are planning to follow up in 2018. This includes the exciting discovery of a new high grade pay shoot at the Nikolaevskaya zone, which was identified in Q4 2017. Some drill intersections showed very impressive gold grades, including 2.0m@258g/t, 8.5m@11.8g/t and 3.4m@26.0g/t. Due to these planned developments, exploration CAPEX◆ for 2018 is mostly allocated to Pioneer and Albyn.

Health and Safety
As Interim CEO, the safety of our employees is my highest priority and obligation, and a zero injury and fatality target across all our operations is something we have worked hard on for many years. Sadly, I regret to report that we had three fatalities during 2017. This is discussed in the Chairman's statement and in further detail in our sustainability report.

Our urgent response is of paramount importance as we are actively involved in POX construction works and the development of underground mining operations, which are deemed to be high risk. Health and safety remains our foremost priority. The professionalism and dedication of all employees involved, on whom our health and safety depends, is clear to me and gives me confidence that these tasks will be successfully accomplished in a safe and responsible manner.

The Future Takes Shape
Our solid operational and exploration results, together with the progress made in the construction of the POX Hub during 2017, will support Petropavlovsk in meeting its 2018 production and development targets, creating foundations for production growth from refractory and underground reserves in the mid and long term. Regarding the longer term, we are looking forward to first production from our refractory Reserves at Pioneer, which is currently scheduled for 2023.

We are evaluating potential ways to bring the completion of the Pioneer flotation plant forward, which would improve our production profile. Our mid-term plans also include further expansion of our underground operations at Pioneer by opening the Andreevskaya and Nikolaevskaya mines, and potentially commencing underground mining at Albyn, where we are planning exploration in 2018 and 2019.

We continue to invest in innovative technologies, which should result in further improvements to our processing capabilities. One prospective development in this field is the high temperature pre-treatment of Malomir concentrate, which our research facility RDC Hydrometallurgy has been focusing on. This additional low cost processing stage could increase POX recovery from Malomir concentrate by up to 5% from what is currently budgeted.

With the completion of the POX Hub approaching and our underground mines in operation, Petropavlovsk is close to becoming a truly diversified gold mining company capable of exploiting sustainably and responsibly a range of gold deposits, creating value for all its stakeholders.

Sergey Ermolenko
Interim CEO

"We continue to invest in innovative technologies, which should result in further improvements to our processing capabilities."

◆ Go to pages 197 to 203 for more information on our APMs.

Our Business Model

1. Explore & Evaluate

We aim to replenish, expand and improve our resource base through brownfield and greenfield exploration. Our experienced exploration team has a proven track record of identifying, exploring and appraising high value deposits.

2. Develop

We create value and drive future growth by developing our mines in a responsible and efficient manner, using our extensive in house expertise to maximise return on investment.

3. Mine & Process

Our operating experience allows us to achieve optimal gold extraction, which coupled with industry leading expertise in processing technologies is conducive to healthy profit margins.

The Cycle

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

Our key performance indicators appear throughout this report and introduce the operational, financial and sustainability sections respectively (pages 33, 65 and 81).

4. Gold

Gold doré bars are our end product. These are sent to refineries for smelting into bullion. Currently all our production is sold to Russian banks.

5. Mine Closure & Rehabilitation

We integrate closure planning throughout the asset life cycle, ensuring prudent valuing and responsible environmental compliance. We have a strong reputation for sustainable and responsible development of mines throughout the production cycle.

The Group's current strategy focuses on the following aspects:

Maintain and expand reserve and resource base

The Group aims, through its exploration and development programme, to identify and develop new reserves and resources to offset depletion and expand the reserve and resource base to support long term growth. The Group believes that its licence areas present potential for further development, with exploration work to date suggesting the potential for the discovery of additional Mineral Resources.

Starting in 2014, the Group initiated a comprehensive ongoing review of its assets with a view to optimising its development pipeline, and identifying additional prospective and capital efficient growth opportunities. The review identified a number of initiatives, including low risk and low cost development projects located near to current infrastructure or continuations of known ore bodies.

The Group's short-term reserve and resource strategy is to focus on:

– maintaining non-refractory production to continue efficient utilisation of the Group's current processing capacity, through exploration on or adjacent to the Group's current mining operations; and

– further exploration to expand the reserves and resources at the existing underground operations which have been carried out at Pioneer and Malomir.

The Group's longer-term reserve and resource strategy is to focus on:

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

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

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

Unlock existing refractory and underground gold reserves

Over 50 per cent of the Group's existing Reserve base consists of refractory ore, which requires processing via pressure oxidation or other methods, and higher grade underground ore located within the Group's existing open pit mines. The POX project and the Group's underground operations are designed to unlock these reserves. Successful commissioning of the POX Hub and Malomir and later Pioneer flotation plants is expected to ensure sustainable refractory production.

The POX project comprises the construction of the POX Hub, which is expected to be commissioned in the fourth quarter of 2018, the refractory ore flotation plant at the Malomir mine, the first stage of which is expected to be commissioned by H2 2018, and the refractory ore flotation plant at the Pioneer mine, which is currently expected to be commissioned in 2023. These flotation plants will produce concentrate to be delivered to the POX Hub for processing. The POX Hub may also process concentrate sourced from third parties.

In 2016, work commenced on the development of underground mines at Pioneer and Malomir and during the first half of 2017 the Group reached underground high grade ore at both mines, and commenced mining in June 2017.

◆ Go to pages 197 to 203 for more information on our APMs.

Continue optimising costs and strengthening profitability

The Group's strategic plan for the identification and implementation of operational efficiencies and cost optimisation focuses on new projects and continued operations.

New project cost initiatives include:

- developing full scale high grade underground operations;
- optimisation of waste stripping when mining refractory ore bodies; and
- implementing efficient processing methods for our refractory reserves (through the POX project bodies.

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

As a complementary measure, management constantly monitors the gold price and maintains a hedging position which aims to ensure that levels of cash generation will meet development budget needs.

Strengthen the balance sheet and liquidity position

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

As part of this strategy, the Group expects (on the basis of the current gold price and exchange rates) to generate strong and sustainable net operating cash flows to enable the Group to meet its planned Capital Expenditure◆ program of approximately US$100 million in 2017, approximately US$110 million in 2018, and approximately US$50 million in 2019.

De-risking the Company's development plans was a key focus area during 2017. This included securing free cash from the operating business and improving the Company's capital structure, and in November 2017 we launched a bond issue to refinance the Company's bank debt as a means of improving the maturity profile in line with our development plans.

As part of its ongoing balance sheet optimisation, the Group also continues to assess the ways to realise the value of its current interest in IRC.

Maintain stringent environmental health and safety standards

Petropavlovsk is committed to providing its employees with a safe working environment and complying with all applicable environmental regulations and international working practices.

The Group complies with Russian labour legislation, the most significant of which is the Labour Code of the Russian Federation, and has health and safety systems in place that support the Code. Petropavlovsk conducts regular reviews of labour protection in the workplace and regularly examines all internal policies and procedures to ensure they remain robust and effective.

Occupational health and safety (OHS) risks are identified, reviewed and evaluated to mitigate their impact. All accidents are recorded and reported to the Executive Committee and the Board, which then provides an immediate response and action plan. The Board's Health, Safety and Environmental Committee meets regularly and one of their duties is to assess and evaluate OHS management systems. Petropavlovsk also conducts regular on-site inspections to ensure all operations comply with regulations.

Visual link
Petropavlovsk's core objectives and strategy define key performance indicators (KPIs) that the Group monitors, targets and measures.

◆ Go to pages 197 to 203 for more information on our APMs.

Market Overview

Gold price +12% for the year against falling demand
Starting the year at US$1,151/oz and closing at US$1,291/oz, gold returned 12% in 2017. On a relative basis, while gold outperformed silver (-12%), platinum (0%) and the Bloomberg Commodity Index (+1%), it could not quite match the returns generated by palladium (+50%). Gold traded in a range of US$1,151/oz to US$1,346/oz, averaging US$1,257/oz, roughly in line with the previous year's average price (US$1,248/oz).

Total global gold demand fell 7% to 130.9Moz, impacted by a combination of lower ETF and physical gold purchases and a 5% reduction in official sector buying. Total gold supply dropped 4% as a result of lower volumes of recycled gold coming onto the market, and whilst mine production reached record levels, it was not materially higher, suggesting that a production plateau is in effect.

Overall jewellery demand continues to be driven by India and China
Total jewellery demand amounted to 68.7Moz, up 4% on 2016, with India and China together accounting for 57% of the figure. India's jewellery demand climbed 12% to 18.1Moz, with Chinese demand growing 3% to 20.8Moz. Gold jewellery purchases in India were supported by festivals, weddings, improved rural sentiment and the government's decision to remove the application of anti-money laundering regulation to jewellery. It is also worth remembering that 2016 was a difficult year for Indian jewellery demand overall, with pent up demand carrying over into 2017. Meanwhile, China benefited from particularly strong demand in H2 2017, driven by holiday purchases and retail trade. In contrast, Europe saw a third consecutive year of soft demand, with total jewellery demand amounting to 74.0Moz (-3% on 2016), with lacklustre UK demand a key contributing factor.

Overall investment demand declined year on year, primarily due to lower ETF demand and slightly lower bar / coin demand
Inflows into gold ETFs did not quite match the robust performance witnessed in 2016. According to data compiled by UBS, gold ETFs added just 6.5Moz in 2017 (to 71.6Moz), which by comparison is less than half the 2016 figure (15.0Moz). The pace of ETF growth slowed notably in H2 2017 and although towards the year end European and Asian ETF funds saw inflows, US funds saw outflows. One possible explanation for the overall lower investment demand seen in 2017 is that many markets and indices around the world reached record highs. This factor, combined with the prospect of additional interest rate increases (gold prices are inversely correlated with interest rates), may have prompted some investors to rotate out of gold and into other assets. Nonetheless, anecdotal evidence from ETF providers suggests that overall, investors still view gold as a portfolio diversification tool, and as an effective hedge against inflation, negative interest rates, currency devaluation and political instability.

Total bar and coin demand contracted 2% to 33.1Moz, with physical bar demand relatively unchanged at 24.8Moz (-1%). However, official gold coin demand disappointed, falling 10% to 6.0Moz. US buying was affected by competition from strong equity markets, while Indian demand was impacted by the government's anti-money laundering and cash origination policies. Demand in the US fell 58% from 3.0Moz in 2016 to 1.3Moz in 2017, while the UK experienced a 12% drop. In contrast, demand in China climbed 8% to 9.9Moz, while India saw more modest growth of 2% to 5.3Moz.

Although central bank buying was 5% lower in 2017, it was the eighth consecutive year of purchases by the official sector
Gold is traditionally viewed as an asset class to help diversify reserves, and central bank buying continued in 2017, albeit at a slower pace. Purchases amounted to 11.9Moz, compared to 12.5Moz in 2016. Russia, Turkey and Kazakhstan led the buying.

In 2017, Russian gold reserves grew by 7.2Moz (+14%) to 59.1Moz, Turkey's reserves increased by 6.0Moz (+50%) to 18.2Moz, and Kazakhstan bought 1.4Moz (+17%), to finish the year at 9.7Moz. With a 50% uplift in reserves compared to 2016, Turkey's decision rests on the government's view that gold is a key reserve asset, while the Central Bank of Russia stated that gold is seen as a key asset in the face of political and economic uncertainty. Gold disposals by the central banking sector were immaterial during 2017.

Total gold supply fell 4% to 141.4Moz, primarily affected by a reduced quantity of recycled gold
Although not materially higher than 2016 (104.9Moz), 2017 was a record year for mine production at 105.1Moz.

Gold production from China, the world's largest producer, decreased by 10% in 2017 due to a focus on improved environmental standards, which resulted in the closing of some marginal operations, while the ongoing dispute with the government of Tanzania affected production at Acacia Mining.
In contrast, Russian gold output was buoyant, with Q4 2017 seeing the commencement of Polyus Gold's Natalka project, which once fully ramped up in 2018 will boost Russia's total future gold output.

While recycled supply fell 10% to 37.3Moz, it should be viewed in context; 2016 was a strong year (41.6Moz of recycled supply), and 2017 figures are being compared to a high base. In some geographies, 2016 recycling activity was boosted by higher local prices, an effect which reversed in 2017, discouraging some consumers from selling their gold. Q4 2017 was the only period during the year when there was an increase in recycling activity when compared to Q4 2016, with an increase of 8%.

The RUB strengthened by 6% against the US$ in 2017
While Petropavlovsk's gold sales are denominated in US$, approximately 80% of the Group's costs are RUB based. A weaker RUB is beneficial for the business because operating costs are lower when translated into our reporting currency. The RUB commenced 2017 at 60.7RUB, closing at 57.6RUB. Since Russia is a key global oil player, the RUB has often had a positive relationship with the direction of oil prices, and as such, firmer oil prices in 2017 may be one of the factors behind the RUB's appreciation.

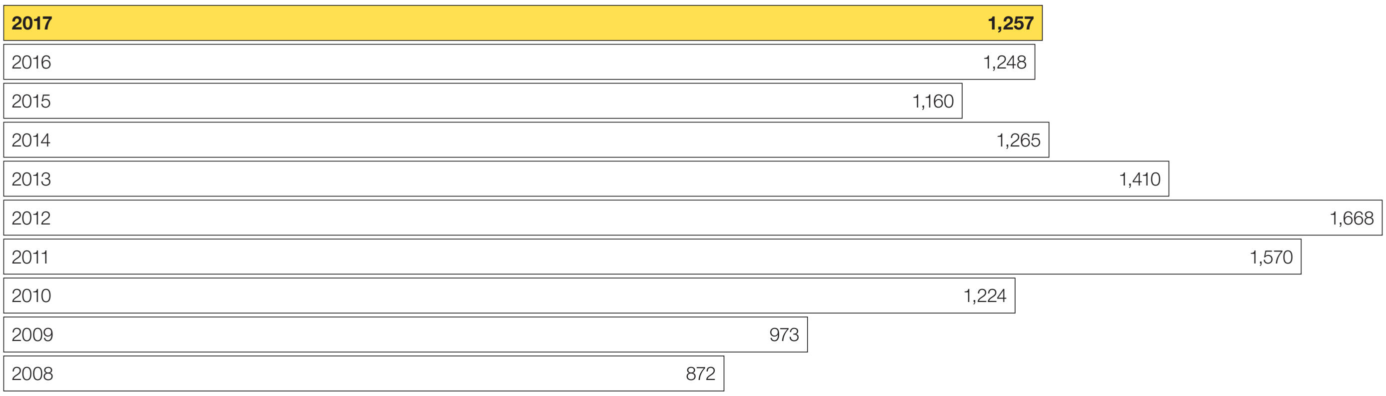
Oil prices continued their recovery, closing 2017 at US$60/oz
Oil prices continued moving upward in 2017, after touching a 13 year low of US$26/bbl in 2016. The primary driver behind improved price sentiment was the agreement between OPEC and non-OPEC countries, such as Russia, to implement production cuts.
While these cuts have been successful to a degree, they have also led to a resurgence in the production of US shale, as producers re-enter the market based on a higher oil price environment. An additional demand has been the higher oil consumption from China and India, driving an increase in daily demand of 1.6m barrels in 2017.

Higher oil prices translate into higher fuel costs for Petropavlovsk, an expense which accounts for approximately 14% of our total operating cash expense figure (US$43.8m, an increase of 8% vs. US$40.3m in 2016).

2018 outlook for gold prices
During the first two months of 2018, gold averaged US$1,332/oz, an increase of 10% on the same period in 2017. How gold performs for the remainder of the year will depend on various factors, including the path of inflation, interest rates, US$ strength, stock market performance as well as political risk.

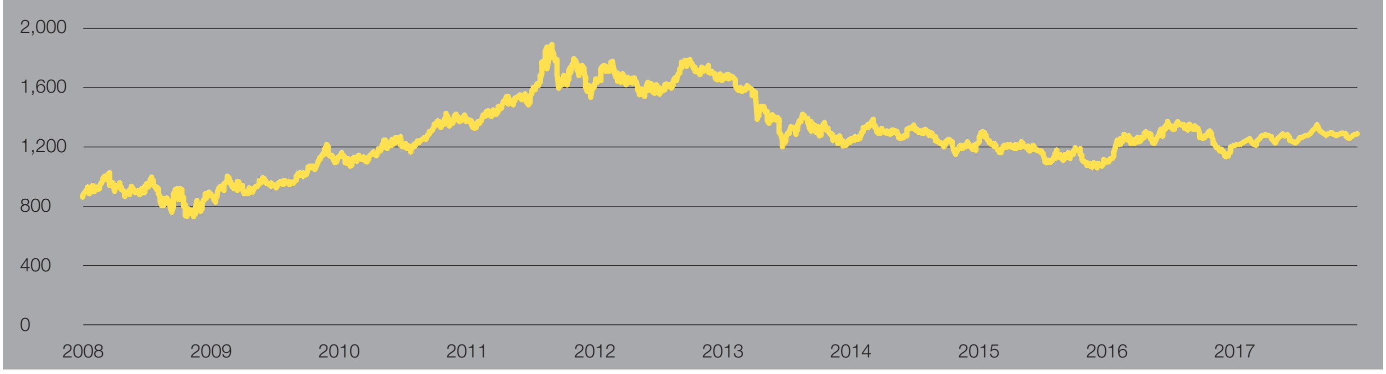
A softer US$, heightened political uncertainty and increased concerns regarding inflation being higher than expected may encourage some investors to turn to gold as both a hedge, a diversification tool and as a store of value. However, should steady global growth and stocks continue to outperform, the opportunity cost of holding gold would increase, making gold less attractive as an asset. There is also the issue of interest rates; the US Fed raised interest rates three times in 2017 (to 1.5%), yet gold proved somewhat resilient. As such, an additional point to consider is whether gold can withstand further rate hikes, due in 2018.

The average annual gold price increased 1% in 2017 to US$1,257/oz (in US$/oz)



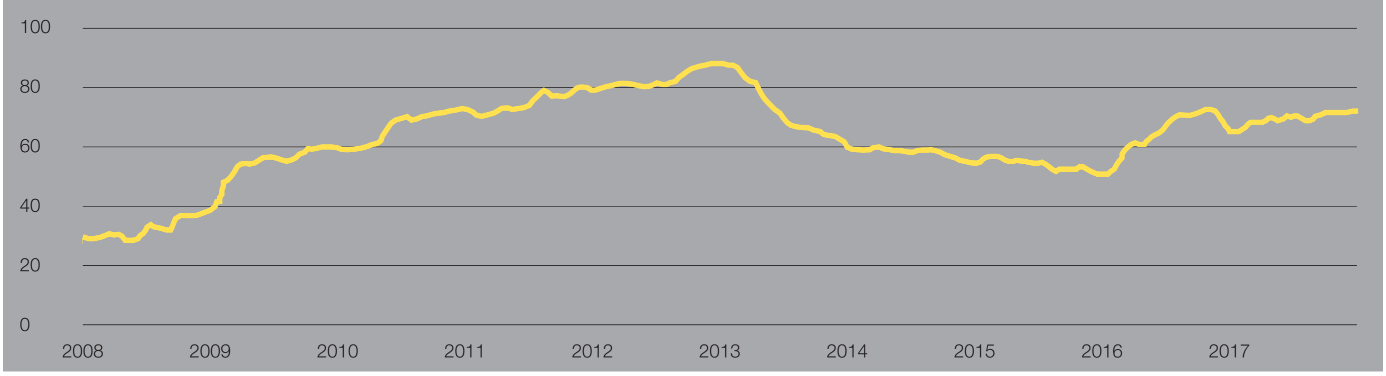
Source: *The London Gold Market Fixing Limited. Data provided for information purposes only*

Gold appreciated by 12% in 2017 (in US$/oz)



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

Gold ETFs finished 2017 with combined holdings of approximately 72Moz, up 10% on the year (in Moz)



Source: *UBS*

Risks to Our Performance

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

The Group's risk management system is monitored by the Board, with the exception of (i) financial risks which are in the first instance monitored by the Audit Committee and (ii) health, safety and environmental ('HSE') risks which are in the first instance monitored by the HSE Committee. The Audit and HSE Committees report any material risks to the Board which considers these risks and monitors the mitigating action being taken to address and manage these risks. The risk management system aims to ensure that the Board's focus is on those risks with the highest potential impact. Risks that could impact the business are considered in the broad categories detailed in the table below.

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

The Executive Committee evaluates which of the risks detailed in the risk matrices constitute the material risks for the Group, in terms of potential impact and financial cost, with reference to its strategy and the operating environment. Those risks with the highest potential impact are then presented to the Board. The Executive Committee also focuses on any new and emerging risks.

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

Principal risks relating to the Group
The most significant risks that may have an adverse impact on the Group's ability to meet its strategic objectives and to deliver shareholder value are set out on pages 20 to 31. The Group seeks to mitigate these risks wherever possible, although some, such as political risks, are largely beyond the Group's control. Summarised alongside each risk is a description of its potential impact on the Group. Measures in place to manage or mitigate against each specific risk, where this is within the Group's control, are also described.

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

Petropavlovsk's principal risks and uncertainties are detailed in the table below and are supported by the robust risk management and internal control systems and procedures outlined on page 113.

Changes from risks identified in the 2016 Annual Report
As detailed, the following table includes the most significant risks that may have an adverse impact on the Group's ability to meet its strategic objectives. There have been no major changes to the risks identified in 2016, with the exception of the increase in the risk related to the Company's guarantee on the outstanding amounts IRC owes to ICBC, as detailed below. However the construction of the POX Hub, which is due to be commissioned during Q4 2018, and the ramping up of the Group's underground mining operations are critical to the future growth and the financial viability of the Group and these are a key focus of the Board.

The risk relating to the Company's guarantee against the project loan facility provided to K&S by ICBC to fund the construction of IRC's iron ore mining operation at K&S, of which c.US$234m is outstanding remains a significant issue. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is one of the key elements of the Group's overall going concern assessment. Further information on this matter is contained in the Audit Committee Report on page 111 and in the going concern statement on page 138.

From a health and safety perspective the Board is mindful that the continued development of underground mining and autoclave technologies which will commence Q4 2018 are all deemed to be high risk from a health and safety perspective. The health and safety of the Group's employees and contractors are of paramount importance to the Board and the Board has approved the appointment of an HSE Director, a non-Board role, to raise the profile of this matter within the Group.

Risk management framework

Petropavlovsk PLC Board

Audit Committee	HSE Committee	Executive Committee

Categorisation of risks and risk owners

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

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◆ Go to pages 197 to 203 for more information on our APMs.

Table of principal risks

Operational risks

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

Risk	Description and potential impact	Additional information
Risk to production from: – **severe weather conditions;** – **the availability of suitable machinery, equipment and consumables; and** – **logistics for the delivery of equipment and services.**	The Group's assets are located in the Russian Far East, a remote area that can be subject to severe climatic conditions. Severe weather conditions, such as cold temperatures in winter and torrential rain, potentially causing flooding in the region could have an adverse impact on operations, including the delivery of supplies, equipment and fuel; and exploration and extraction levels may fall as a result of such climatic factors. The Group relies on the supply and availability of various services and equipment in order to successfully run its operations. Delay in the delivery or the failure of mining equipment could significantly delay production and impact the Group's profitability. The Group is dependent on production from its operating mines in order to generate revenue and cash flow and comply with the production and sales covenants in certain of its borrowing facilities.	Operational Performance on pages 32 to 41.

EXPLORATION RELATED RISK

Risk	Description and potential impact	Additional information
The Group's activities are reliant on the quantity and quality of the Mineral Resources and Ore Reserves available to it.	Exploration activities are speculative, time-consuming and can be unproductive. In addition, these activities often require substantial expenditure to establish Reserves through drilling and metallurgical and other testing, determine appropriate recovery processes to extract gold from the ore and construct or expand mining and processing facilities. Once deposits are discovered it can take several years to determine whether Reserves exist. During this time, the economic viability of production may change. As a result of these uncertainties, the exploration programmes in which the Group is engaged in may not result in the expansion or replacement of the current production with new Reserves or operations.	Update on page 61 to 62.

The symbols indicate how the Company considers that these risks have changed since 2016.

↑ Increased risk	→ No change	↓ Decreased risk

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
Preventative maintenance procedures are undertaken on a regular and periodic basis to ensure that machines will function properly under extreme cold weather conditions; heating plants at operational bases are regularly maintained and operational equipment is fitted with cold weather options which could assist in ensuring that equipment does not fail as a result of adverse weather conditions. Pumping systems are in place and tested periodically to ensure that they are functioning. Management monitor natural conditions in order to pre-empt any disaster and in order that appropriate mitigating action can be taken expediently. The Group aims to maintain several months of essential supplies at each site. Equipment is ordered with adequate lead time in order to prevent delays in the delivery of equipment. The Group has a number of contingency plans in place to address any disruption to services.	During 2017 the Group delivered production in accordance with its mining plan.	High	→

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
The Group uses modern geophysical and geochemical exploration and surveying techniques. The Group employs a world class team of geologists with considerable regional expertise and experience. They are supported by a network of fully accredited laboratories capable of performing a range of assay work to high standards. Group Mineral Resource and Ore Reserve estimates are prepared by a team of qualified specialists following guidelines of JORC Code 2012, which is one of the most recognised reporting codes. Mineral Resource and Ore Reserve estimates are subject to regular independent reviews and audits. The last full audit was completed in April 2017 by Wardell Armstrong International. In addition, as a part of compliance with The Subsoil Law Group, the Group also prepares reserve estimates following Russian GKZ guidelines. These estimates are subject to GKZ audits. Where possible, the Group reconciles GKZ and JORC estimates which provides additional confidence to the Company. The Group employs a team of qualified mining engineers to undertake mine planning, complete open pit and underground mine design and production scheduling.	Successful near mine exploration completed during 2017 led to an increase in both JORC Mineral Resources and Ore Reserves. It also identified a number of promising targets that warrant further exploration, which may result in further Mineral Resources and Ore Reserves discoveries. The Group's Gold Ore Reserves and Mineral Resources estimated as at 31 December 2017 was prepared by the Group's Competent Person in accordance with the JORC Code. Total Mineral Resource ounces (including Reserves) as at 31 December 2017 amounted to 20.86Moz, compared to 20.16Moz in 2016, with a total Reserve of 8.15Moz compared to 7.95Moz as at 31 December 2016. Taking into account the 0.47Moz depletion from mining operations during 2017, the Group achieved a 1.17Moz gross increase in Mineral Resources and a 0.67Moz gross increase in Ore Reserves, compared to the 2017 Wardell Armstrong International estimate prepared in April 2017. The completion of the POX Hub will unlock the 9.26Moz refractory Resource which supports Petropavlovsk's long-term growth objectives in doubling the average life of mine and sustaining its production profile.	High	→

Table of principal risks

Operational risks continued

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

Risk	Description and potential impact	Additional information
Pressure Oxidation (POX) Hub	If the Group is unable to deliver POX within the agreed budget and timeframes this may have an adverse impact on the Group's growth plans and its future profitability. Of Petropavlovsk's 20.86Moz of Resources and Reserves, 9.63Moz is classified as refractory. Unlike non-refractory ore, refractory ore cannot be processed via regular processes; in order to unlock the value embedded in these ounces, alternative methods must be used. The Company has decided to adopt the pressure oxidation method to do this. Consequently the Company will not be able to process and access the value of its refractory ore without the commissioning of the POX Hub.	The POX Hub on pages 42 to 51.
The underground mining project	If the Group is unable to achieve planned production within the agreed capital and operating cost budget this may have an adverse impact on the Group's growth plans and its future profitability.	Underground on page 52.

The Board closely monitors both the POX and underground mining projects.

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
The Group has entered into a management contract with Outotec a world leader in the design and construction of pressure oxidation and flotation plants. Outotec will oversee the manufacture, installation and commissioning of the equipment and has guaranteed certain operating parameters. The delivery of the POX project is being led by an experienced and skilled Project Team. This includes an experienced scientific team which is developing the optimal parameters of the process suitable for the specifics of Petropavlovsk's concentrates. The Group operates a unique POX pilot plant that replicates principal processing stages of an industrial POX processing plant on a small scale.	Full scale construction works on the POX Hub were resumed at the beginning of 2017 with key construction milestones reached during the year. The POX Hub is on schedule for commissioning Q4 2018 with the ramp up to commercial production due to occur throughout 2019.	**High**	→
The Group employed a Russian engineering firm to undertake a pre-feasibility study and mine design on underground mining. The study concluded that underground mining should be technically feasible and economically viable. The Group engaged an experienced mining contractor to undertake underground mining development and underground mining. The contractor is supervised by an in-house team of experienced underground mining managers and engineers.	Planned underground development was substantially completed at Pioneer and Malomir during 2017 in spite of some delays; production began at both underground mines.	**High**	→

Table of principal risks

Financial risks

FINANCIAL RISKS – Excluding financial risks related to IRC		
Risk	**Description and potential impact**	**Additional information**
Lack of funding and liquidity to allow the Group to: **i. Support its existing operations;** **ii. Invest in and develop its exploration and underground mining projects;** **iii. Complete the construction of the POX Hub;** **iv. Extend the life and capacity of its existing mining operations;** **v. Refinance/repay the Group's debt as it falls due; and** **vi. Complete the construction of the POX Hub out of free cash flow.** **(For financial risks related to IRC please see page 26.)**	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.	Chief Financial Officer's Statement on pages 84 to 93.
The Group's result of operations may be affected by changes in the gold price	The Group's financial performance is highly dependent on the price of gold. A sustained downward movement in the market price for gold may negatively affect the Group's profitability and cash flow and consequently its ability to fund the construction of the POX Hub. The market price of gold is volatile and is affected by numerous factors which are beyond the Company's control.	Market Overview on pages 16 and 17. Chief Financial Officer's Statement on pages 84 to 93.

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
Detailed annual budgets are approved by the Board and monthly forecasts provided. A successful cost reduction programme was undertaken to offset the effect of a reduction in the gold price. The Group continues to progress its internal KPI to reduce Total Cash Costs◆ during the period 2013-2018.	On 14 November 2017 the Group issued US$500m 8.125% Guaranteed Notes due 2022 (the Notes). Proceeds of the Notes were used to substantially refinance the Group's loans pursuant to the banking facilities with Sberbank and VTB Bank. The Group's borrowing facilities with Sberbank and VTB included 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. These covenants have been removed. The issuance of the Notes and the refinancing of the Group's bank debt has provided medium term financial stability and flexibility for the business In addition on 22 March 2018, the Company signed and fully executed a gold sales agreement with Gazprombank, for a total volume of 96koz and for advance payment for up to 12 months. Advances will be settled using proceeds at the prevailing gold price at the date of the shipment. The forward gold sales agreement with Gazprombank provides flexibility in managing working capital of the Group.	**High**	↓ Please see IRC related risks on page 26.
The Chief Financial Officer constantly monitors the gold price and influencing factors on a daily basis and consults with the Board as appropriate. The Group has a hedging policy and hedges a portion of production as the Chief Financial Officer and the Board deem necessary.	In order to increase certainty in respect of a significant proportion of its cash flows, the Group entered into a number of gold forward contracts during 2017. Forward contracts to sell an aggregate 212,501oz of gold matured during the year, resulting in a gain for the Group of US$0.8m. Forward contracts to sell an aggregate of 400,000oz of gold at an average price of US$1,252oz were outstanding as at 31 December 2017. During 2018 the Company has continued to hedge a portion of its gold production in order to protect itself from volatility in the price.	**High**	→

◆ Go to pages 197 to 203 for more information on our APMs.

Financial risks continued

FX RISK

Risk	Description and potential impact	Additional information
Currency fluctuations may affect the Group.	The Company reports its results in US Dollars, which is the currency in which gold is principally traded and therefore in which most of the Group's revenue is generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. The appreciation of the Russian Rouble against the US Dollar tends to result in an increase in the Group's costs relative to its revenues, whereas the depreciation of the Russian Rouble against the US Dollar tends to result in lower Group costs relative to its revenues. In addition, a portion of the Group corporate overhead is denominated in Sterling. Therefore, adverse currency movements may materially affect the Group's financial condition and results of operations. In addition, if inflation in Russia were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, the Group's business, results of operations and financial condition may be adversely affected.	Chief Financial Officer's Statement on page 92.

IRC Related RISKS – The Company has a 31.10% interest in IRC, a Hong Kong Listed iron ore producer

Risk	Description and potential impact	Additional information
Risk that funding may be demanded from Petropavlovsk under a guarantee in favour of ICBC arising from: **Inability of K&S to service the interest and meet the repayments due on the ICBC loan due to insufficient funds arising from:** **– further delays in K&S achieving full production; and** **– decrease in iron ore price.** **A further delay in the commissioning of K&S and/or a decrease in the iron ore price could result in a decrease in the value of the Company's shareholding in IRC.**	Petropavlovsk has provided a guarantee against a US$340 million project loan facility provided to K&S by ICBC to fund the construction of IRC's iron ore mining operation at K&S, of which c.US$234m is outstanding (2016: cUS$234m). This loan is supported by Sinosure, the Chinese export credit agency. In the event that K&S was to default on its loan, Petropavlovsk may be liable to repayment of the outstanding loan under the terms of the guarantee and other Group indebtedness may become repayable under cross-default provisions. Consequently the Group's going concern status remains highly sensitive to IRC's ability to comply with covenants within the ICBC facility and generate sufficient cash flows from its K&S mine.	IRC on page 63. Audit Committee Report on page 111. Going concern statement on page 138.

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
The Group does not undertake any foreign currency transaction hedging although this is kept under review.	During 2017, the Russian Rouble appreciated by 13% against the US Dollar, with the average exchange rate for the period decreasing from 67.18 Roubles per US Dollar in 2016 to 58.32 Roubles per US Dollar in 2017.	High	→

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
The Board and the Chief Financial Officer maintain close communication with IRC's Executive whilst the Chairman communicates regularly with the IRC Chairman. The Company is seeking a nominee on the Board of IRC. IRC and the Company continue to consider various options available to them, both separately and jointly, regarding the restructuring of IRC's debt and the potential removal of the guarantee. This is a key focus of the Board.	On 31 March 2017, IRC announced that ICBC had waived the obligation of K&S to repay all loan principal instalments due in 2017 totalling US$42.5m. This amount will be spread equally between the five subsequent repayment instalments due under the project finance facility. The next scheduled repayment of US$29.75m is due on 20 June 2018. Management of the Company and IRC are in discussions with ICBC regarding an amendment of the repayment schedule and to obtain waivers in respect of obligations to comply with certain financial covenants. IRC is also in advanced discussions regarding the full refinancing of the ICBC facility with a leading bank. However, if the ICBC refinancing is not completed and IRC is unable to refinance the ICBC facility with another lender, IRC and/or the Company would then need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt and/or equity financing. As a result of this issue, the going concern statement, on page 138 of this Annual Report, includes a material uncertainty statement. The Company has proposed the appointment of a nominee Director on the Board of IRC during 2018. K&S produced 1,563,066 tonnes of iron ore concentrate during 2017 and operated at a steady state capacity of greater than 60% in January 2018. The Company's interest in IRC was valued at c.US$70.9m as at 31 December 2017 (2016: US$36m). The increase in the Company's interest relates principally to a reversal of impairment by IRC Ltd – please see page 89 for further information.	High	↑

Health, safety and environmental risk

Health, safety and environmental risk		
Risk	**Description and potential impact**	**Additional information**
Mining: **– is subject to a number of hazards and risks in the workplace** **– requires the use of hazardous substances including cyanide and other reagents**	The Group's employees are one of its most valuable assets. The Group recognises that it has an obligation to protect the health of its employees and that they have the right to operate in a safe working environment. Certain of the Group's operations are carried out under potentially hazardous conditions. Group employees may become exposed to health and safety risks which may lead to the occurrence of work-related accidents and harm to the Group's employees. These could also result in production delays and financial loss. Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community.	Sustainability report on pages 64 to 78. Sustainability: Key Performance Indicators (KPIs) on pages 65 to 67.

Legal and regulatory risks

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

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
Board level oversight of health and safety issues occurs through the work of the Health, Safety and Environmental Committee ('HSE') which was chaired by Mr Alexander Green, Independent Non-Executive Director from 1 January 2017 to 22 June 2017 and by Mr Vladislav Egorov during the period 22 June 2017 to 31 December 2017. Health and Safety management systems are in place across the Group to ensure that the operations are managed in accordance with the relevant health and safety regulations and requirements. The Group continually reviews and updates its health and safety procedures in order to minimise the risk of accidents and improve accident response, including additional and enhanced technical measures at all sites, improved first aid response and the provision of further occupational, health and safety training. Cyanide and other dangerous substances are kept in secure storages with limited access only to qualified personnel, with access closely monitored by security staff. H&S targets are included in the annual bonus scheme for Executive Directors and the Executive Committee.	Mr Vladislav Egorov, HSE Committee Chair visited the Group's operations in the Amur Region of Russia in the latter part of 2017 and met with a number of HSE personnel in order to promote a strong health and safety culture within the Group. The Lost-Time Injury Frequency Rate (LTIFR) for 2017 of 3.11 accidents per 1 million manhours worked compared with a LTIFR of 2.64 in 2016. Regrettably this included three fatalities which are summarised in the Sustainability report on page 65 together with details of the agreed actions to ensure that these type of accidents do not reoccur. Given the Board's commitment to improving health and safety of its employees throughout the Group the Board has also agreed a new non-Board position of HSE Director. This is particularly relevant given the Group will continue to develop underground mining and autoclave technologies during 2018 which are all deemed to be high risk from a health and safety perspective.	**Medium/High**	→

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
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.		**Medium/High**	→

Legal and regulatory risks continued

Legal and regulatory risks		
Risk	**Description and potential impact**	**Additional information**
The Group is subject to risks associated with operating in Russia.	Actions by governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets could have an adverse impact on the Group's business or its future performance. Most of the Group's assets and operations are based in Russia. Russian foreign investment legislation imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including in respect of gold reserves in excess of a specified amount or any occurrences of platinum group metals. The Group's Pioneer and Malomir licences have been included on the list of subsoil assets of federal significance, maintained by the Russian Government ("Strategic Assets"). The impact of this classification is that changes to the direct or indirect ownership of these licences may require obtaining clearance in accordance with the Foreign Strategic Investment law of the Russian Federation.	

Mitigation/comments	2017 Progress	Potential impact	Change since 2016
To mitigate the Russian economic and banking risk the Group strives to use the banking services of several financial institutions and not keep disproportionately large sums on deposit with a single bank. The Group seeks to mitigate the political and legal risk by constant monitoring of the proposed and newly adopted legislation to adapt to the changing regulatory environment in the countries in which it operates and specifically in Russia. It also relies on the advice of external counsel in relation to the interpretation and implementation within the Group of new legislation. The Group closely monitors its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government. The Company's Articles of Association include a provision which allows the Board to impose such restrictions as the Directors may think necessary for the purpose of ensuring that no ordinary shares in the Company are acquired or held or transferred to any person in breach of Russian legislation, including any person having acquired (or who would as a result of any transfer acquire) ordinary shares or an interest in ordinary shares which, together with any other shares in which that person or members of their group is deemed to have an interest for the purposes of the Strategic Asset Laws, carry voting rights, exceeding 50 per cent. (or such lower number as the Board may determine in the context of the Strategic Asset Laws) of the total voting rights attributable to the issued ordinary shares without such acquisition having been approved, where such approval is required, pursuant to the Strategic Asset Laws.	This risk cannot be influenced by the management of the Company However, the Group continues to monitor changes in the political environment and reviews changes to the relevant legislation, policies and practices.	**High**	→

Operational Performance

Key Performance Indicators

Our key performance indicators appear throughout this report and introduce the operational and sustainability sections and the CFO statement respectively (pages 33, 65 and 81).

Mineral Resources (Moz) (1)

2017	20.9
2016	20.2
2015	23.3

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

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

Progress In 2017
A successful exploration campaign in 2017 yielded a 6% increase (before depletion) in JORC Mineral Resources across the Group's assets to 20.86Moz. The increase is mainly attributable to additions at open pit and underground targets at Pioneer and Albyn, including a 26% increase in Resources suitable for underground mining, from c.0.7 to c.0.9Moz.

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

Specifically in 2018, Group geologists will look to delineate further underground non-refractory reserves to increase the supply of high grade ore to processing plants in the near term and improve cash flows. In addition, the definition of non-refractory resources for open pit extraction to facilitate production growth via conventional RIP operations in the medium-term, will also be a priority.

Ore Reserves (Moz) (1)

2017	8.2
2016	7.8
2015	8.4

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 categories.

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

Progress In 2017
Work completed in 2017 increased total Group Reserves by c.8% or c.0.7Moz (before depletion) to 8.15Moz. In particular, successful exploration and completion of technical studies increased Ore Reserves for underground mining by 16% to c.0.4Moz. This includes high grade underground Reserves at Pioneer. New open pit Reserves were also established at Pioneer and Albyn.

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

Total Attributable Gold Production (koz) (1)

2017	440
2016	400
2015	504

Definition
Measured in troy ounces, attributable gold production is the total of the gold produced from the Group's four hard rock mines for the applicable years. Gold production data consists of gold recovered during the period and is adjusted for the movement of gold remaining in circuit.

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

Performance In 2017
The Group produced 439.6koz, towards the upper end of the guided range and 10% higher than during the same period in 2016 (400.2koz). Both of our flagship mines, Pioneer and Albyn, outperformed the previous year's production.

It should be noted that from the beginning of 2017, the Company moved to using gold poured as the definition for production and comparable 2016 gold production numbers were adjusted accordingly.

Going Forward
Gold production for 2018 is forecast between 420 - 460koz. As part of the mining plan, ore will be sourced from open pit operations, with meaningful contribution from our underground mines at Malomir and Pioneer. Although the Board has taken a conservative approach towards the production forecast for 2018, management is aiming to produce first gold from the POX Hub in Q4 2018.

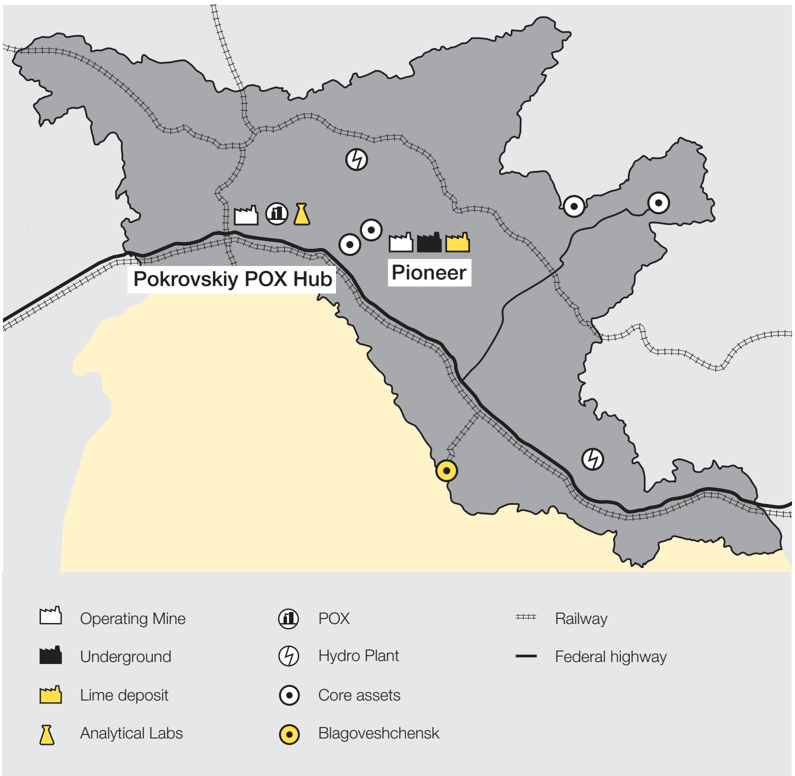
(1) Commencing 2017, the Company moved to using gold poured as the definition for production. The production data for 2017 and 2016 has been prepared to reflect this. However, it should be noted that the 2015 numbers have not been restated.

Operational Performance

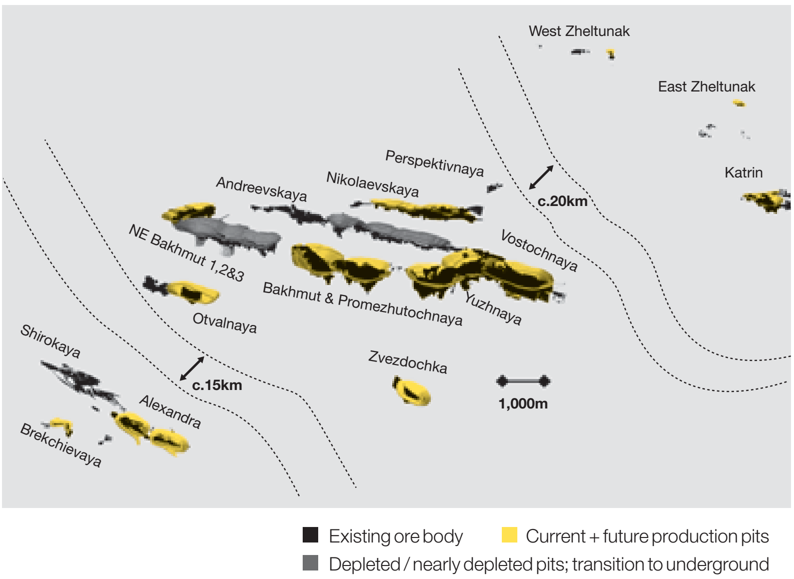
Pioneer

Pioneer remains Petropavlovsk's flagship asset with the most significant exploration potential.

Location

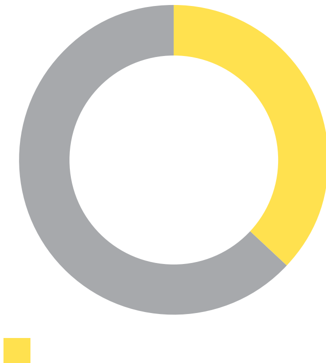


Site plan



2017 gold production:

161.8koz – 37% of total Group gold production for the year.



Production as a % of total group

Key facts:

2001
Pioneer was acquired as a greenfield license

2.4Moz
Gold produced to date

6,783kt
Ore processed via RIP in 2017

752kt
Ore processed via HL in 2017

$1,337km^2$
Total gold licence area

6.10Moz
Mineral Resources, including 2.94Moz Ore Reserves

15 year
Mine life

Geology

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

Pioneer includes five licences covering multiple orebodies, most of which are steep dipping, and remain open in a down dip direction. Pioneer orebodies comprise of high-grade shoots and lower grade halo mineralisation. The high-grade shoots are generally 1 to 8 metres in thickness with a strike length of up to 400m. The more moderate grade halos are up to 200m thick with a strike length of up to 2km. Many of the high-grade pay shoots are open at depth, providing potential for further increase in resources. Exploration potential for the discovery of significant open pit resources is also acknowledged, particularly south and south west from Pioneer.

Mining and Processing

Pioneer is a multiple open pit, bulk tonnage mine. The Pioneer orebodies include both non-refractory and refractory ore. Non-refractory ore is processed at the 6.7Mtpa RIP plant, which operates throughout the year.

The Group is at an advanced stage of developing a new processing plant - the POX Hub, which will enable gold production from refractory ore. The POX Hub is located at Pokrovskiy, c.40km south of Pioneer, and is expected to become operational by the end of 2018. It will process refractory concentrates initially produced at Malomir and later at Pioneer after a flotation unit is added to the Pioneer processing facility. The Group is evaluating the potential to complete the Pioneer flotation plant and enable refractory production as soon as possible, in order to increase production output in the mid-term.

Low-grade non-refractory ore (<0.5g/t) is processed via a seasonal, heap leach operation. Underground development commenced at Pioneer's North East Bakhmut area in Q3 2016 using a reputable Russian mining contractor.

Underground production at North East Bakhmut commenced in H1 2017. Underground production is planned to be ramped up throughout 2018 to 0.2-0.3Mtpa.

Operations

In 2017, Pioneer produced 161.8koz, 37% of total Group production, and a 21% increase from 2016 (133.2Koz). The increase is mainly attributable to a significant reduction of gold in circuit, which is gold remaining in the processing circuit of the plant (primarily in resin sorbent and cyanide solution, in the form of electrolytic product). The release of gold in circuit was primarily achieved through the successful commissioning, in Q1 2017, of a resin treatment facility that releases gold 'trapped' in used resin.

The main sources of ore at Pioneer were pits of the Alexandra, Yuzhnaya, Promezhutochnaya and Andreevskaya-West zones. This ore was blended with lower grade material from stockpiles. RIP processing recoveries were lower than in 2016 due to head grades being lower and the ore processed being more refractory than in the previous year. Heap leach operations operated through the warmer season, producing 6.1koz of gold.

During 2017, a total of 3,646m (50,268m^3) of underground development was completed. The first underground ore was produced in June. In total, 35.1kt of underground ore with an average gold content of 2.78g/t was mined in 2017. By the end of 2018, when underground mining at Pioneer is ramped up to full capacity, Pioneer is expected to produce ore at an average of 4-5g/t.

Total Cash Costs◆ were US$791/oz, a 25% increase from 2016 (US$631/oz). All-in Sustaining Costs◆ were US$1,164/oz, a 30% increase from 2016. Both Total Cash Costs◆ and All-in Sustaining Costs◆ are affected by Rouble appreciation against the US Dollar and by Rouble inflation. Higher Total Cash Costs◆ also reflect the impact of the lower grades processed and lower metallurgical recoveries. The increase in All-in Sustaining Costs◆ is also attributable to the development of the NE Bakhmut underground project and tailings dam expansion.

Outlook

In 2018, Pioneer production is expected to be at the same level as in 2017. Open pit mining and production is expected to be in line with 2017, whilst we expect to see the NE Bakhmut underground mine ramping up to its full planned capacity by the end of the year. Underground reserves at Pioneer are 263koz at present, a c.100koz increase compared to the last year, and there is significant potential for these to increase in the course of further exploration works planned for 2018. The release of gold in circuit is no longer expected to contribute materially, though gold output will be maintained by increasing underground production from 2017 levels.

Pioneer open pit and underground mining operations

	Units	Year ended 31 December 2017	Year ended 31 December 2016
Total material moved	m3 '000	15,857	17,360
Ore mined	t '000	8,489	3,266
Average grade	g/t	0.72	0.95
Gold content	oz. '000	196.4	99.4

Processing operations (Resin-in-pulp plant)

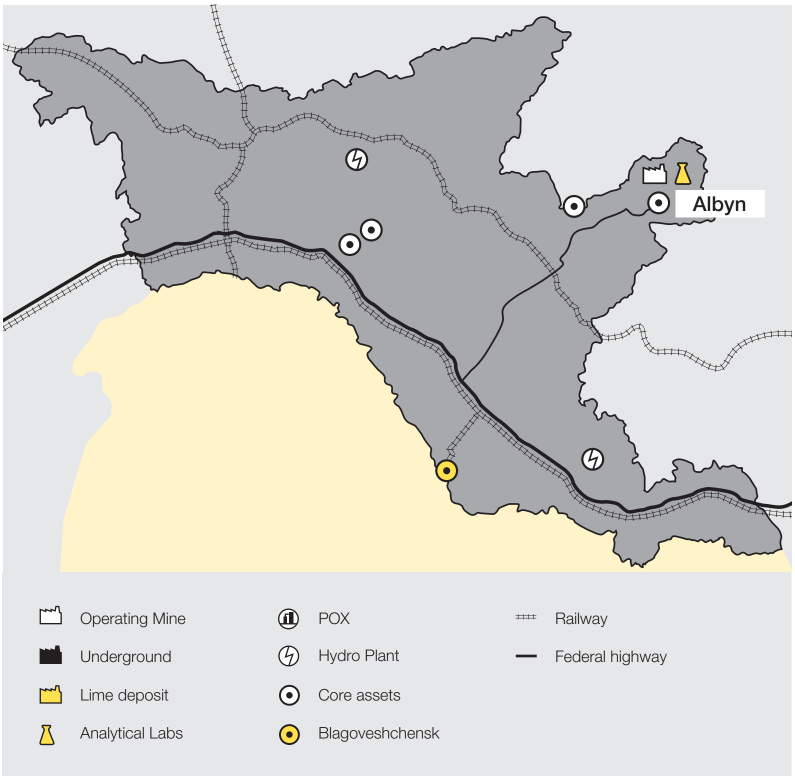
	Units	Year ended 31 December 2017	Year ended 31 December 2016
Total milled	t '000	6,783	6,700
Average grade	g/t	0.68	0.75
Gold content	oz. '000	148.9	159.8
Recovery	%	75.3%	85.5%
Gold recovered	oz. '000	112.1	136.6
Heap leach operations			
Total stacked	t '000	752	701
Average grade	g/t	0.49	0.53
Gold content	oz. '000	11.7	12.0
Recovery	%	51.8%	44.1%
Gold recovered	oz. '000	6.1	5.3
Pioneer gold production – Doré	oz. '000	161.8	133.2

◆ Go to pages 197 to 203 for more information on our APMs.

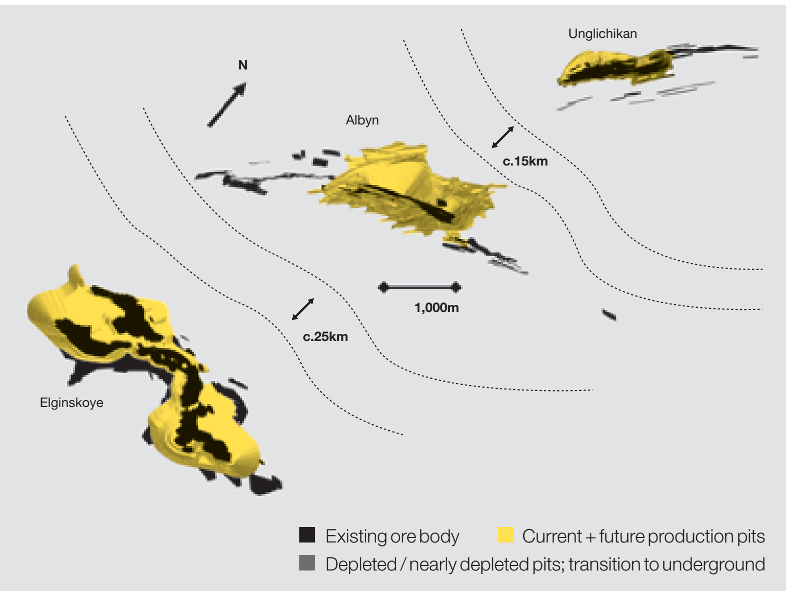
Albyn

Albyn is Petropavlovsk's largest producing mine and has a 100% non-refractory Resource base.

Location



Site plan



2017 gold production:

181.6koz – 41% of total Group gold production for the year.

Production as a % of total group

Key facts:

2005

Pioneer was acquired as a greenfield license

0.9Moz

Gold produced produced to date

4,618kt

Ore processed via RIP in 2017

1,053.1km²

Total gold licence area

4.95Moz

Mineral Resources, including 2.31Moz Ore Reserves

16 year

Mine life

Geology

The mine is located on the Mongolo-Okhotskiy thrust zone, within the belt of mineralisation associated with the collision of the Eurasian and Amur plates. The mineralisation at Albyn comprises a series of gently dipping, sub parallel metasomatic zones, which appear to be open in a down dip direction. They show variable thickness and grade, extending for c.4.5km in strike length.

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

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

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

All known Mineral Resources and Reserves are currently classified as non-refractory, though refractory gold mineralisation is known to exist at the Unglichikan and Elginskoye deposits.

Albyn mining operations

	Units	Year ended 31 December 2017	Year ended 31 December 2016
Total material moved	m3 '000	28,557	31,763
Ore mined	t '000	5,263	4,970
Average grade	g/t	1,16	1.25
Gold content	oz. '000	196.5	199.5

Processing operations (Resin-in-pulp plant)

	Units	Year ended 31 December 2017	Year ended 31 December 2016
Total milled	t '000	4.618	4,675
Average grade	g/t	1.16	1.28
Gold content	oz. '000	171.9	192.5
Recovery	%	93.3%	93.5%
Gold recovered	oz. '000	160.3	180.0
Albyn gold production - Doré	oz. '000	181.6	173.9

Mining and Processing

Albyn is a large (2.2km in length), open pit, bulk tonnage operation. The Group operates its own mining fleet at Albyn, which consists of modern diesel and electrical excavators, dump trucks, drill rigs, bulldozers and other vehicles. Mining productivity and equipment utilisation is optimised by operating two daily shifts throughout the year.

The Albyn licence includes multiple defined orebodies. All are non-refractory and can be treated at the 4.7Mtpa RIP plant, which operates throughout the year. The RIP plant comprises of two identical grinding lines, each with a 1.8Mtpa design capacity. Operational optimisations and improvements completed since the Albyn plant was commissioned in 2011 allowed a 30% increase over the original design processing capacity.

Operations

In 2017, Albyn produced 181.6koz, 41% of total Group production and a 4% increase on 2016 (173.9koz). The main sources of ore were the Central and Eastern zones of the Albyn main pit, with a small amount of ore supplied from stockpiles. The eastern zone was completed during 2017. Throughout the year, the processing plant had consistently high recoveries of over 90%.

Total Cash Costs◆ were US$541/oz, a 7% decrease from 2016 (US$581/oz). All-in Sustaining Costs◆ were US$718/oz with no material change compared to 2016. Total Cash Costs◆ and All-in Sustaining Costs◆ are affected by Rouble appreciation against the US Dollar, and by Rouble inflation. Higher head grades mitigated the negative effect of these factors.

Outlook

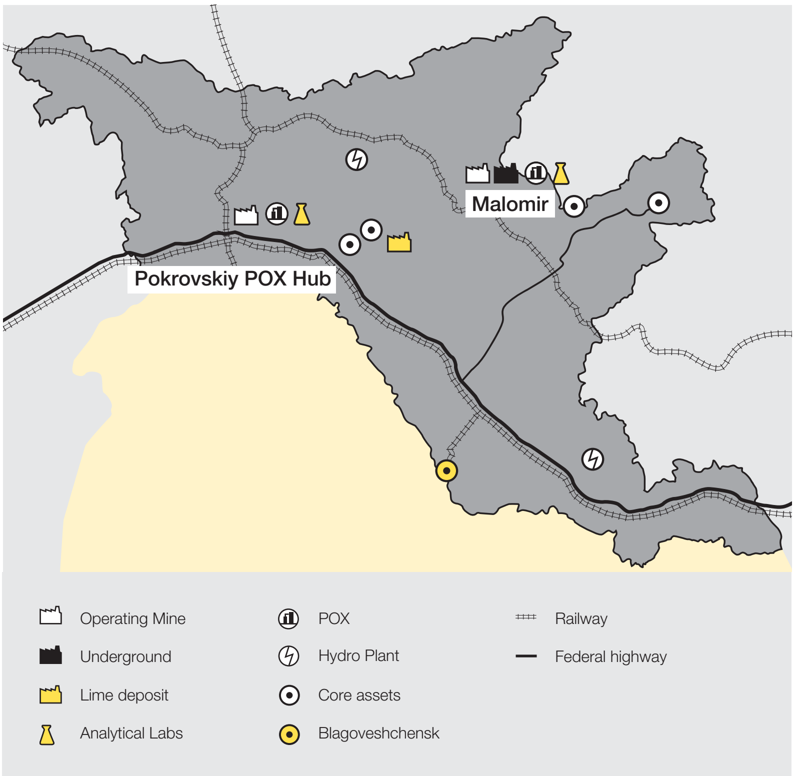
In 2018, Albyn production is expected to be marginally higher than in 2017, due to slightly higher grades in both ore mined and processed during the year. Production will continue from open pit operations. Albyn's current open pit is now entering its final stages and scheduled to be completed in 2019, when production from Elginskoye and Unglichikan is expected to start. As the Albyn orebody remains open at depth well below the open pit, the Group is also exploring the potential for underground mining there. This may become an additional source of production in the future, should planned exploration confirm sufficient underground Reserves.

◆ Go to pages 197 to 203 for more information on our APMs.

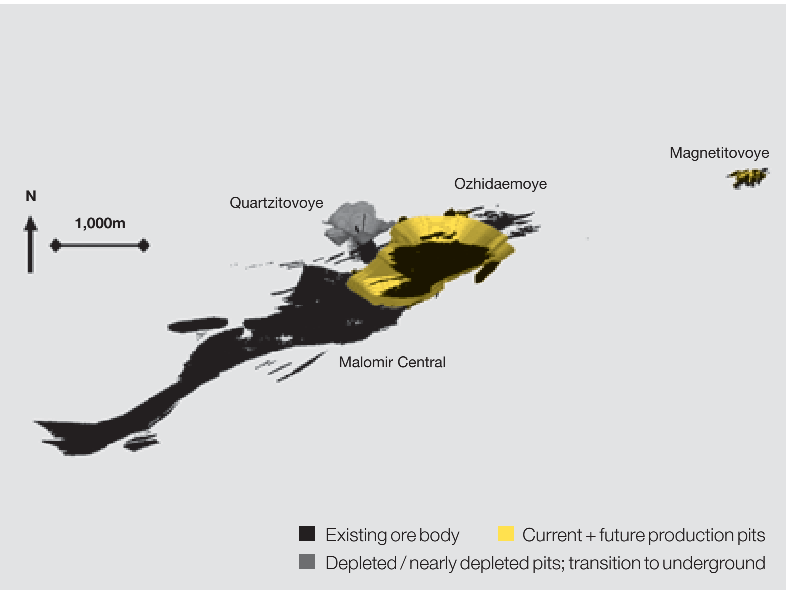
Malomir

Malomir is the Group's largest asset by Reserves and Resources and with c.90% refractory ore Reserves will be the main source of concentrate for the future POX Hub.

Location



Site plan



2017 gold production:

65.6koz – 15% of total Group gold production for the year.

Key facts:

2003
Pioneer was acquired as a greenfield license

0.6Moz
Gold produced to date

3,404kt
Ore processed via RIP in 2017

821.3km^2
Total gold licence area

7.06Moz
Mineral Resources, including 2.70Moz Ore Reserves

16 year
Mine life

Geology

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

The Malomir project includes multiple identified orebodies of which Malomir, Quartzitovoye, Ozhidaemoye and Magnetitovoye are the most significant. Malomir licences also cover a number of exploration targets including Uspenskoye, Razlomnoye, Tumannoye and Zapadnoye. These targets remain prospective for the discovery of both refractory and non-refractory resources. Quartzitovoye is a high-grade zone and remains open in down dip direction, with potential to increase non-refractory resources for potential underground mining.

Mining and Processing

Malomir is an open pit and underground operation. Underground mining is performed by a reputable Russian underground mining contractor. The Group operates its own mining fleet at Malomir for open pit mining and is assisted by a local contractor. Mining productivity and equipment utilisation is optimised by operating two daily shifts throughout the year.

The Malomir licence includes multiple orebodies, which contain both refractory and non-refractory ore. The higher-grade non-refractory ore at Quartzitovoye and Magnetitovoye is processed at the 3.0Mtpa RIP plant, which is operational throughout the year. The refractory ore from Ozhidaemoye does not respond to standard RIP processing methods.

The Group is currently developing a processing plant, the POX Hub, to treat the Group's significant refractory reserve base. This includes a 5.4Mtpa flotation plan at Malomir, which is being built in two stages. As a result of the first stage of development (capacity of 3.6Mtpa), the Group is expected to start concentrate production in Q2 2018. The second stage, to increase the capacity of the Malomir flotation unit to 5.4Mtpa, is currently expected to be completed and commissioned in 2019. The flotation plant will convert the refractory reserves into higher-grade flotation concentrate, which will be sent to the POX Hub for processing.

The POX Hub is located at Pokrovskiy, c.670km (by motor road) from Malomir. Construction of the POX Hub is at an advanced stage and it is expected to become operational by the end of 2018, processing refractory concentrates initially produced at Malomir and from 2023 at Pioneer.

Malomir mining operations

	Units	Year ended 31 December 2017	Year ended 31 December 2016
Total material moved	m3 '000	9,380	8,115
Ore mined	t '000	2,770	1,535
Average grade	g/t	0.97	1.11
Gold content	oz. '000	86.1	54.9

Processing operations (Resin-in-pulp plant)

	Units	Year ended 31 December 2017	Year ended 31 December 2016
Total milled	t '000	3,404	3,000
Average grade	g/t	0.91	0.86
Gold content	oz. '000	99.5	82.5
Recovery	%	64.9%	68.9%
Gold recovered	oz. '000	64.6	56.8
Malomir gold production - Doré	oz. '000	65.6	54.9

Underground development commenced at Malomir's Quartzitovoye zone in January 2017. Despite initial delays due to slow contractor mobilisation, Quartzitovoye underground production started in June 2017 and ramped up to an annualised 0.25Mtpa of ore by the end of the year. The grade of the ore mined in December 2017 reached 9.16g/t, c.30% higher than budgeted. Quartzitovoye is expected to maintain this level of ore production through 2018, and the grade of underground ore mined in 2018 is expected to be c.6g/t.

Operations

In 2017 Malomir produced 65.6koz, 15% of total Group production and a 20% increase from 2016 (54.9koz). The increase is mostly attributable to the processing of high grade underground ore and to an overall increase in plant throughput.

The main sources of ore were pits of the Quartzitovoye and Magnetitovoye zones, blended with high grade ore mined from underground and low grade ore from stockpiles. The volumes of ore treated through the plant increased by 13% compared to 2016, which was in line with the mining plan.

The Quartzitovoye 2 pit was completed in H1, though recovery rates from the pit were lower than planned due to its ore being more refractory than expected.

The construction of an underground mine at Quartzitovoye 1 began in January 2017, and 3,084m (47,157m3) of underground development was completed during the year. Delays experienced in Q1 2017 were largely rectified by the end of Q3. Full scale stope mining commenced in December, resulting in strong production towards the year end. During 2017, a total of 73.6kt of ore was mined from underground, with an average gold content of 8.03g/t. The Quartzitovoye underground mine is expected to be in full production throughout 2018.

Total Cash Costs◆ were US$929/oz, a 13% increase from 2016 (US$824/oz). All-in Sustaining Costs◆ were US$1,278/oz, a 27% increase from 2016. Both Total Cash Costs◆ and All-in Sustaining Costs◆ are affected by Rouble appreciation against the US Dollar, and by Rouble inflation. Higher Total Cash Costs◆ also reflect the impact of the higher strip ratio and lower metallurgical recoveries. The increase in All-in Sustaining Costs◆ is also attributable to the development of the Quartzitovoye underground project.

Outlook

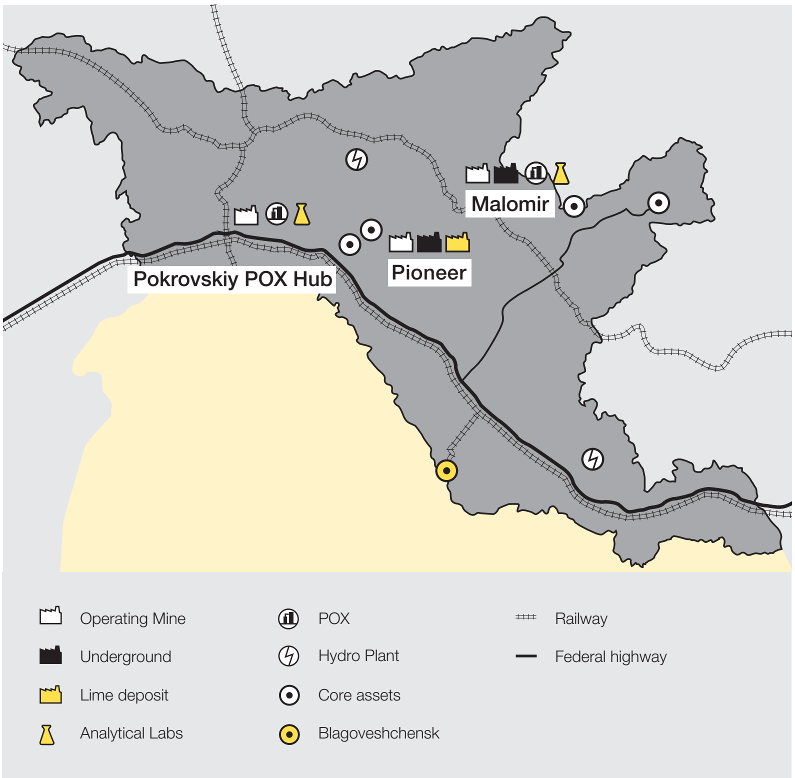
Malomir production is expected to increase in 2018. Non-refractory production will be supported by the high-grade ore mined from underground and non-refractory RIP plant throughput is expected to be at the same level as in 2017. The transition to flotation and refractory processing planned for Q2 2018 will reduce the capacity of the RIP plant from the present value of 3.0Mtpa to c.0.65Mtpa. It is expected that flotation concentrate from Malomir will be initially stockpiled to create a reliable feed for autoclave treatment when POX Hub operations at Pokrovskiy commence in Q4 2018. The first production from Malomir's refractory reserves, expected in Q4 2018, is set to contribute to the overall production increase at Malomir.

◆ Go to pages 197 to 203 for more information on our APMs.

Pokrovskiy

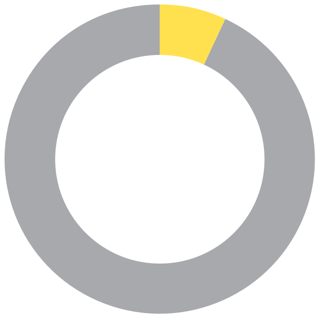
The Group's oldest mine, Pokrovskiy is at the end of its operational life and is in the process of being converted into a key POX Hub site.

Location



2017 gold production:

30.6koz – 7% of total Group gold production for the year.



Key facts:

1994

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

2.0Moz

Gold produced to date

1,815kt

Ore processed via RIP in 2017

95.0km²

Total gold licence area

1.32Moz

Mineral Resources, including 0.005Moz Ore Reserves

Geology
Pokrovskiy is located on the south side of the Mongolo-Okhotskiy regional belt, approximately 40km south of Pioneer, which in addition to gold hosts a significant limestone deposit, set to be used as the main source of limestone for future POX Hub operations.

Mining and Processing
Pokrovskiy has functioned as a multiple open pit operation since 2001 but the mining and processing of Pokrovskiy ores came to an end in Q1 2018.

Pokrovskiy is being converted into a key POX hub site during 2018. The Pokrovskiy site was chosen due to its strategic location, infrastructure, processing facilities and proximity to Pioneer's limestone deposit, limestone being a key ingredient for the pressure oxidation process.

Operations
In 2017 Pokrovskiy produced 30.6koz, 7% of total Group production, and a 20% decrease from 2016 (38.2koz) due to the mine's closure.

The Zeyskaya and Vodorazdelnaya zones were the main sources of low-grade ore, which was blended with ore from stockpiles. This contributed to a year-on-year decrease in H1 processing recovery at the plant.

Leading up to the transition of the RIP plant into a key POX Hub component, both RIP and heap leach plants operated as planned. Heap leaching commenced in April and ended with the arrival of cold weather in October.

Total Cash Costs◆ were US$1,236/oz, a 41% increase on 2016 (US$878/oz). All-in Sustaining Costs◆ were US$1,367/oz, a 38% increase from 2016. Costs were high due to the processing of remaining marginal Reserves. The Pokrovskiy mine is now closed and in the process of being converted into the POX Hub.

Outlook
In 2018, production from Pokrovskiy is expected to be significantly below its 2017 levels as the mine is in the process of being converted into a key POX Hub site. Integration of the existing infrastructure and RIP plant into the POX Hub commenced in Q1 2018. The POX Hub is expected to start production towards the end of 2018 producing c.30koz of gold from Malomir concentrate by the end of the year.

Pokrovskiy mining operations

	Units	Year ended 31 December 2017	Year ended 31 December 2016
Total material moved	m3 '000	3,745	4,709
Ore mined	t '000	1,468	1,027
Average grade	g/t	0.51	0.79
Gold content	oz. '000	24.1	26.0

Processing operations (Resin-in-pulp plant)

	Units	Year ended 31 December 2017	Year ended 31 December 2016
Total milled	t '000	1,815	1,791
Average grade	g/t	0.47	0.65
Gold content	oz. '000	27.4	37.1
Recovery	%	82.9%	90.1%
Gold recovered	oz. '000	22.7	33.5
Heap leach operations			
Total stacked	t '000	498	440
Average grade	g/t	0.39	0.45
Gold content	oz. '000	6.3	6.3
Recovery		45.4	64.8%
Gold recovered	oz. '000	2.9	4.1
Pokrovskiy gold production - Doré	oz. '000	30.6	38.2

Other Projects
Tokur is a hard rock, non-refractory gold deposit located in the north eastern part of the Amur region, approximately halfway between the Malomir and Albyn mines. Being a former Soviet era mine based in an area of intensive, historical alluvial mining, Tokur benefits from developed infrastructure, including all weather roads and power supply. This led it to become a base for the Group's expansion into the area. The project's facilities, which include mechanical workshops, dormitories and a canteen, are in regular use both by the company workers passing through and by third parties for a fee. The chemical and fire analysis laboratory located at Tokur is fully employed by the Group's exploration division. Tokur is at an advanced stage of development and potentially suitable for reopening as an open pit mine. While the deposit is not currently in commercial production, it contains significant JORC Mineral Resources and Ore Reserves, suitable for processing in a RIP plant. At this stage, the asset's development into a full scale mining operation has been put on hold to minimise the Group's Capital Expenditure◆ in the current gold price environment. In line with the Group's plan to focus on existing producing assets in the short term, no significant Capital Expenditure◆ was allocated to this project during 2017. Tokur has been fully impaired (in 2015) and the Group intends to review its development plans in the medium term.

◆ Go to pages 197 to 203 for more information on our APMs.

The POX Hub

Of Petropavlovsk's 20.86Moz of Resources and Reserves, 9.63Moz is classified as refractory. Unlike non-refractory ore, refractory ore cannot be processed via regular processes; in order to unlock the value embedded in these ounces, alternative methods must be used. One of the most efficient, reliable and environmentally friendly methods is pressure oxidation ('POX'), which is considered an industry standard. Petropavlovsk has decided to adopt this method in order to monetise its own refractory assets and, due to the abundance of refractory gold reserves in the Russian Far East and the lack of facilities to process them, potentially process refractory ores or concentrates from other sources.

Today, the Group is nearing completion of a pressure oxidation facility ('POX Hub'), which is scheduled for commissioning in Q4 2018. Petropavlovsk has been developing the POX Hub's main structures at Pokrovskiy, the site of its first producing mine, which has now reached the end of its operational life.

Capacity	500ktpa
No. of Autoclaves	4
Refractory Reserves	4.10Moz
Refractory Resources	9.63Moz
Mass pull (Malomir concentrate)	5.5% mass
Concentrate grade (Malomir concentrate)	24 g/t Au
Sulphur content (Malomir concentrate)	24.9%
Total avg gold recovery (Malomir concentrate)	80%
Mass pull (Pioneer concentrate)	2.9% mass
Concentrate grade (Pioneer concentrate)	24 g/t Au
Sulphur content (Pioneer concentrate)	21.0%
Total avg gold recovery (Pioneer concentrate)	80%


PETROPAVLOVSK

The POX Hub continued

About Refractory Ore
Refractory gold ore is mineralised rock that is resistant to recovery via standard cyanidation and carbon/resin adsorption methods.

In refractory ore, gold is largely associated with sulphide minerals, which encapsulate gold particles. This makes it difficult for the leach solution to reach and dissolve the gold. Some refractory ores also contain organic carbon which absorbs gold from the solution before it is recovered, causing high metallurgical losses. In addition, refractory ores often contain arsenic, which needs to be handled in a safe and environmentally responsible way.

For effective gold recovery, sulphides in the refractory ore need to be broken either chemically (usually by oxidation) or mechanically (by very fine grinding). If carbon is present, special measures are required to neutralise its effect and minimise gold losses.

As with non-refractory 'free milling' ore, refractory processing starts with crushing and grinding and ends with cyanide leaching and gold recovery from the solution. Finally, the gold is smelted into doré bars.

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

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

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

Group Refractory Processing Flowsheet

Flotation Plant
Malomir (From 2018)

Flotation Plant
Pioneer (From 2023)

Malomir concentrate
86% recovery
5.5% concentrate yield
24 g/t Au

Pioneer concentrate
82% recovery
2.9% concentrate yield
24 g/t Au

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

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

3 **RIP Circuit**
Purogold

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

Total recovery = c.80%

As roasting generates toxic fumes, it is usually considered to carry high environmental risks, especially if arsenic is present in the feed. The BIOx method can be an efficient processing option, though it relies on organisms that only live in certain conditions. Consequently, BIOx is very sensitive to the composition of the feed. In addition, the BIOX waste discharge contains arsenic in a soluble form, which creates both safety and environmental risks. UFG can only be used if the gold is encapsulated as fine inclusions in sulphides and other minerals, and can be liberated by a process of mechanical grinding. For this reason, most refractory deposits are not amenable to UFG.

In contrast to other refractory processing options, POX can be applied efficiently to a wide range of refractory feeds. If arsenic is present it is discharged in the form of scorodite, which can be safely stored in a tailings pond. Many gold producers have adopted the technology successfully, after it was developed in the 1950s and first implemented for gold ores in 1985 by Homestake Mining Company at its McLaughlin project, USA.

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

The POX Process
The POX process begins with the same mining operations as a traditional RIP method where firstly, ore is mined, crushed, and ground. It then passes through one of the flotation circuits, which are currently under development at each site. The resultant high grade concentrate, equating to between 2.9 and 5.5% mass of the original ore, is transported to the POX Hub for further processing and gold recovery.

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

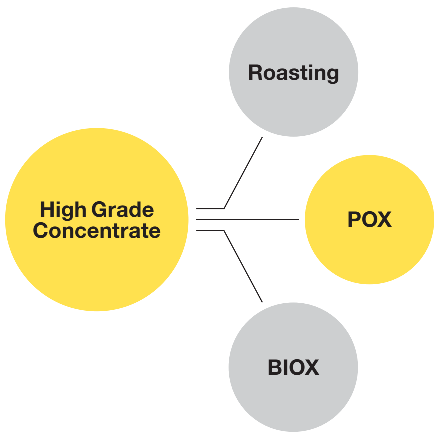
Having four separate autoclave vessels gives our refractory processing operations a significant degree of flexibility because flotation concentrates from Malomir and Pioneer (and potentially other sources) can be processed optimally at the same time, without compromising productivity or gold recovery.

POX at Petropavlovsk
In 2010, following the confirmation of substantial refractory resources at the Pioneer and Malomir projects, an extensive feasibility study into refractory ore processing solutions was carried out by PHM Engineering, a Petropavlovsk subsidiary. This incorporated a base engineering study prepared by Outotec, a Finnish engineering firm, in cooperation with the RDC Hydrometallurgy methodological scientific centre, another Petropavlovsk subsidiary. The results demonstrated that POX was the most technically, economically attractive processing solution, in addition to being the most safe and environmentally friendly method.

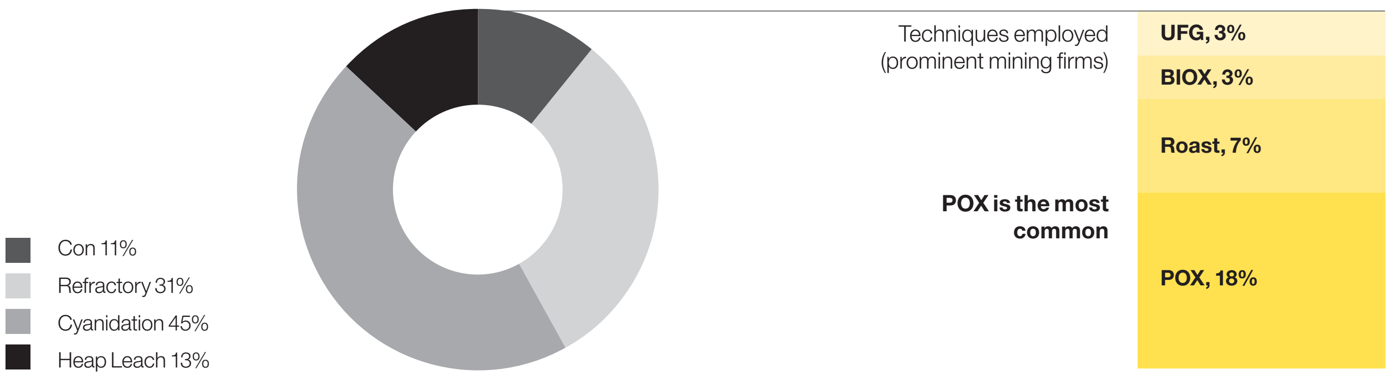
In 2011, the Company decided to proceed with development of the POX project. The final design required the construction of flotation plants at Malomir (5.4Mtpa) and Pioneer (6.0Mtpa), and a 500ktpa pressure oxidation facility (POX Hub) at Pokrovskiy, utilising four separate autoclave vessels (15m x 4m,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

Following the downward gold price trend in 2013, the Company moved the POX Hub development to care and maintenance while exploring potential external funding solutions, namely with the Company's lenders and possible joint venture partners. Prior to this, significant design work, earth works, civil works and construction had been completed. From the beginning of 2017, full scale development works were resumed with the aim to commission the hub in Q4 2018.

Gold Processing Trends



Refractory Processing Options



◆ Go to pages 197 to 203 for more information on our APMs.

The POX Hub continued

Project team

Aleksey Afanasiev
Head of the POX Hub

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

Viktor Fedorov
Head of Research and Development

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

Professor Yakov Schneerson
Director of Gidrometallurgiya R&D Centre

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

Interview with Professor Yakov Schneerson

Professor Schneerson, when did you start working on the POX Project?
In 2007, Petropavlovsk's senior management decided to establish a POX research and development centre, in order to support its strategic aim of developing refractory reserves at Pioneer and Malomir into production. There was no such laboratory in Russia at the time. In 2008, RDC Hydrometallurgy was created, and I was invited to join the research and development team. The laboratory equipment for our St Petersburg lab was commissioned in January 2009, and we began to perform tests for the future POX Hub; in 2011, a pilot autoclave in Blagoveshchensk was also commissioned, which allowed us to carry out metallurgical tests continuously. RDC Hydrometallurgy remains the only specialised POX research and development centre in Russia.

What kind of specialists work at the Research centre, and what experience of POX technology do they have?

Petropavlovsk invited top Russian experts in the field, with both practical and academic backgrounds, to join the team. The team has experience of research and development, as well as POX commissioning and production, not only in the USSR and Russia but also internationally. The team was strengthened by the recruitment of talented graduates from a younger generation. Many have now defended their PhD thesis using unique tests and research results completed for the POX project, and are now highly qualified specialists with unique POX research and development experience. They continue to work in the centre.

Could you describe the main advantages of POX – which features make it suitable for processing a wide range of refractory materials?

For years, POX technology has proved to be one of the most efficient and environmentally friendly processing methods. In our work on the Pokrovskiy POX hub, we decided to move even further within the known technology and to implement the most advanced developments and findings in the processing of refractory gold ore. Our POX Hub is therefore a unique project, for which RDC Hydrometallurgy has improved and adjusted POX technology to the types of ores we are planning to process. We have patented several of our findings, which are being implemented at Petropavlovsk for the first time. Distinctive features of the POX plant include its high temperature and pressure, its robust design with flexible equipment and its technological setup, which allows us to process materials with different compositions and metallurgical characteristics at the same time. I am confident that together with other unique features of the POX plant this will allow us to process a wide range of refractory feeds efficiently, including what is known as 'double' refractory ore, where gold is not only trapped in sulphides but its recovery is affected by the presence of carbon.

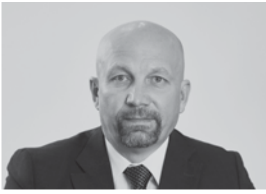
Having several independent processing lines will allow for uninterrupted production even when one of the lines is stopped for routine maintenance.

Which works are being carried out now to improve the efficiency of the POX plant?

Since inception, RDC Hydrometallurgy has tested hundreds of metallurgical samples for the POX plant, which has involved approximately 1,000 individual autoclave experiments. This includes continuous tests on our unique pilot autoclave that closely replicates the processing environment of the full scale plant. This work has been instrumental in defining the optimal design and processing parameters for the POX plant, and in derisking the project. For example, our first tests of Malomir concentrate samples demonstrated recovery rates of only 70%. The results of further tests and research work allowed us to establish processing parameters and regimes under which we can now recover between 92 and 94%. We are currently working to improve this further to

97% by researching the possibility of concentrate pre-treatment as an additional stage ahead of POX. These findings will have a crucial importance in decreasing the costs of production from refractory ores.

Andrey Domanchuk
Deputy General Director, Capital Construction Projects



- Over 20 years of work experience including 15 years managing capital intensive mining and processing projects.
- Principal managing role in successful completion of several processing plant construction and expansion projects for Russian Gold Majors, e.g. Verinskoye plant construction and Olimpiadninskoye BIOX plant expansion (Polyus Gold), Belaya Gora (Highland Gold).

Interview with Andrey Domanchuk

Being in charge of the Department of Capital Construction Projects, could you explain how it functions and the focus of its work at present?

The department was formed specifically for the POX project. We are one of the driving units within the POX development manager structure, fully engaged in the project's EPC – engineering, procurement and construction. Our main task is to get everything completed and ready for autoclave leaching to begin in 2018, on time and within the planned budget.

You have managed projects for some of the largest companies operating in Russia – Polyus Gold, Highland Gold… When did you become a member of the Petropavlovsk team?

I joined Petropavlovsk in December 2016, when work to recommence the project began. This is the largest and the most exciting project I have ever worked on and I am tremendously proud to be part of it.

Prior to joining Petropavlovsk, what knowledge did you have of the Company's POX project?

Our professional circle is very close and I have been working in the industry for a long time, so I had been following its development and had a reasonable understanding of the project, as you can imagine. When I was approached to take part, I agreed immediately; it was an easy decision, certainly this was of great professional interest to me.

I was also looking forward to working alongside the Group's highly professional and widely recognised team of scientists and engineers.

Could you summarise the progress made during 2017?

First of all, there was a lot of preparatory work. We revised the budget, issued working documents, initiated the main procurement campaign and signed major contracts for the supply of equipment, prioritizing items that should be supplied in early 2018.

A large amount of construction and installation work was carried out. The thickeners have been fully completed, which required skilled welding work. The tank equipment for the filter building has been welded, and about 60% of work on the Duplex and Super Duplex steel pipelines has been completed. During the year, we completed most concrete and metal structure work; in the autoclave building alone, about 580 tons of metal structures have been welded. These numbers are staggering.

We also launched the electric substation at Pokrovskiy, which supplies electricity to the oxygen plant. Nearly all technological platforms have been completed, and we are now starting to refurbish and integrate the RIP plant into the POX Hub. The RIP Plant reconstruction is one of the biggest remaining tasks for 2018.

What are your expectations for 2018?

Within the Russian gold mining sector, Petropavlovsk will be the second firm to successfully implement this technology; we believe the Pokrovskiy POX Hub is far more technologically advanced than the one that already exists. Understandably, the team is very excited for it to be launched! We made considerable progress in the last 12 months since the project was recommenced, which required a great deal of hard work from the team. As such, I feel totally focused on driving progress towards the completion of the final construction phase, and to having a strong finish to 2018, with the Pokrovskiy POX Hub operational and producing its first gold.

Dr Sergey Ryakhovskiy
Group Head of Metallurgy

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

Evgeniy Kudrin
Technical Director of POX Hub

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

Teemu Karjalainen
Outotec Project Manager

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

Project Economics

Capital Costs

As at 31 December 2017, the total project cash capital spent on the POX Hub was approximately US$233.4 million. The total outstanding estimated CAPEX◆ as at that date was approximately US$62 million for the POX Hub. The total outstanding estimated Capital Expenditure◆ as at 31 December 2017 was approximately US$24 million for Stages 1 and 2 of the Malomir flotation plant and approximately US$5 million for tailings related to Malomir flotation. The Capital Expenditure◆ associated with the construction of the Pioneer flotation facility is currently estimated at US$40mln.

Potential Upside

Exploration

The Group's defined economic refractory ounces of 4.10Moz refractory JORC Reserves are located within the Malomir and Pioneer projects, with licence areas of 820km^2 and 1,337km^2 respectively. Both projects sit along or above the Mongolo-Okhotskiy mineralised belt, which hosts a number of large deposits, including Sukhoi Log and Teseevskoe to the west of the Amur region. Malomir's JORC Ore Reserves are estimated to be 87% refractory. It is the only large refractory deposit known within the north east of the Amur region and remains largely underexplored, offering further refractory resource upside.

Malomir's geology is favourable for the formation of orogenic type gold deposits, which makes it highly prospective for the additional discovery of resources. This is further confirmed by the large number of known alluvial deposits in this area formed as a result of hard rock gold mineralisation eroding. In addition to its significant non refractory reserves, further refractory resource potential exists at Pioneer, particularly along the contact between granitoid and Jurassic host rocks, south and south west of the Pioneer RIP plant. 56% of Pioneer's JORC Ore Reserves are refractory.

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

Regional Licence Acquisition

Due to the absence of viable processing options, refractory gold prospecting and exploration have been - and still are, a low priority for many Russian gold miners and explorers. As such, many highly promising refractory exploration and development projects are available for licensing from the Russian Government, and for low cost acquisition from other gold explorers, who lack access to suitable processing facilities.

Expansion

The Pokrovskiy POX Hub is the second of its kind in Russia. When complete, it is expected to be the largest with a capacity to process c.500ktpa of concentrate, and to be the most technologically advanced due to its parameters, including high pressure and temperature. In the autoclave building, space has been reserved for two further autoclave vessels in addition to the current four, meaning expansion to a capacity of up to 650ktpa is possible in the future. This is expected to give Petropavlovsk a competitive advantage in developing other Russian refractory deposits.

Ability to Process Third Party Ore

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

Selling Concentrate

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

Further Optimisation

Research completed by RDC Hydrometallurgy indicates that there is potential to increase recovery from Malomir concentrate from 92% (as currently budgeted) to a maximum of 97%, by employing concentrate thermal pre-treatment ahead of POX. This is yet to be incorporated in the POX design and yet to be reflected in the Group's production and financial projections.

There is also the opportunity to further optimise production within the Group's own assets and increase the grades of treated concentrate, or do so in cooperation with third parties using their high grade ores or concentrates.

POX Research and Development Expertise: RDC Hydrometallurgy

The Group's expertise in pressure oxidation is principally represented by RDC Hydrometallurgy, a scientific research centre based in St. Petersburg and a POX pilot plant located in Blagoveshchensk. It is equipped with state of art autoclave laboratory facilities and is currently testing the most recent developments in this field.

Its specialists include 9 PhD holders led by Professor Yakov Shneerson, an internationally recognised authority in the autoclave processing field, and have substantial experience in the research, development and practical implementation of pressure oxidation technology. RDC Hydrometallurgy's principal specialists have previously worked on the development, and in some cases the commissioning, of some of Russia and Kazakhstan's major pressure oxidation plants.

RDC Hydrometallurgy was established to undertake work on extraction methods that could increase processing efficiency at our producing and prospective assets, with a focus on gold recovery from refractory reserves. The centre has particular expertise in gold extraction from refractory sulphide ores, where it is necessary to use pressure oxidation technology.

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

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

During 2017 significant research and metallurgical tests took place, alongside ongoing support of the Pokrovskiy POX Hub engineering, procurement and construction. Test work and research included:

– further tests to reconfirm and refine operational parameters;

– developing recommendations regarding the continuous maintenance of the pilot plant, including research on the durability of the various high pressure valves used at the test autoclave;

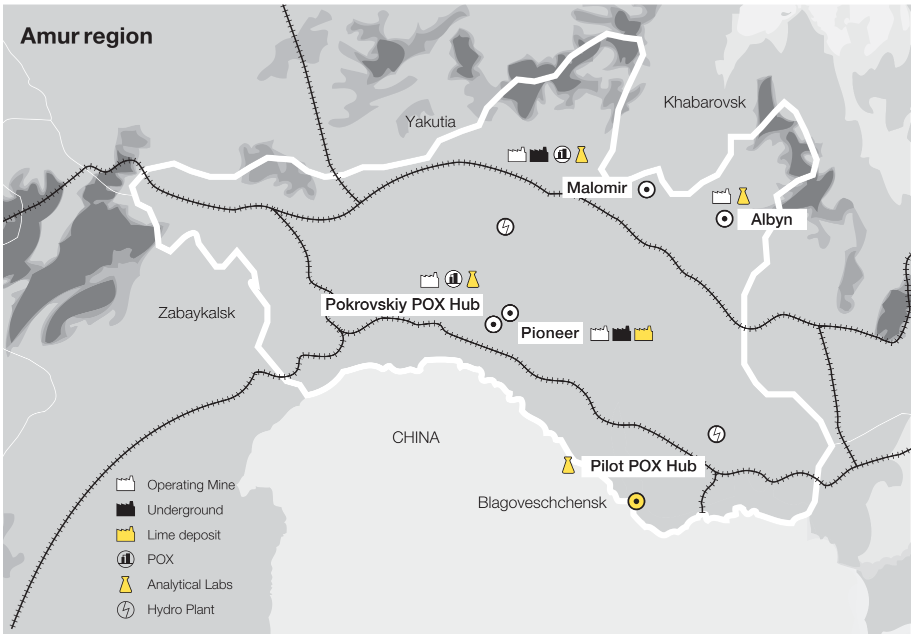
– research including metallurgical tests to further improve and optimise the processing of refractory concentrates of different mineralogical compositions;

– developing recommendations regarding optimal metallurgical testing for new refractory deposits and orebodies; and

– successful conclusion of test work and study, which focused on the thermal pre-treatment of refractory concentrate ahead of POX, indicates potential to increase recovery from Malomir concentrate from 92% (as budgeted) to 97%.

RDC Hydrometallurgy also provides metallurgical tests and consultancy services to third parties. Its clients include Outotec, Polyus Gold, Kazzink, Kazakhmys, Norilsk Nikel and other CIS mining companies. In total, the team has published 25 articles in both Russian and international journals, and patented 6 of its research findings.

Location and Infrastructure



Located in the Amur region, the Pokrovskiy mine is a mature mining operation that has reached the end of its life after 19 years of successful operations, and has been identified as the optimal strategic location for the POX Hub. Its extensive onsite facilities and well developed infrastructure will be adopted and integrated into the project, and includes a 2Mtpa RIP plant, accommodation, roads, power lines, offices and laboratories. Buildings and equipment with a gross book value of approximately US$90 million are being incorporated directly, which is expected to have a beneficial impact on capital costs. The Pokrovskiy site is 670km from Malomir and 40km from Pioneer via all-weather federal roads.

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

Construction Progress

Malomir Flotation Plant (Design Capacity 5.4Mtpa)
The Malomir flotation plant is a staged build with the following two stages:

Stage 1 capacity is 3.6Mtpa across two parallel 1.8Mtpa lines. Construction of Stage 1 is complete with only some work outstanding, primarily on the flotation tailings facility. Flotation concentrate production is scheduled for the second quarter of 2018.

Initially the concentrate will be stockpiled before being transported to the POX Hub site ahead of the staged autoclave commissioning, which is expected to start in Q4 2018.

Stage 2 will expand the flotation plant to 5.4Mtpa by adding a third 1.8Mtpa line. This will fully calibrate the combined flotation and RIP plant capacity with the existing 6.0Mtpa crushing and grinding capacity. Stage 2 expansion is currently expected to be completed and commissioned in 2019.

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

Pioneer Flotation Plant (design capacity 6.0Mtpa)
Construction of the Pioneer flotation plant is scheduled to start in 2021, ahead of concentrate production from 2023. The Group is evaluating the possibility of moving the completion of Pioneer's flotation plant forward to the end of 2019. This would improve the Group's gold production profile and allow for better utilisation of the POX Hub capacity.

During 2016, the Company renewed key contracts with Outotec, which is responsible for the design and development of the plant. All assembling, installation and commissioning works are being carried out under Outotec installation and technical supervision. As part of recommencing the POX Hub development, Outotec and the Company completed in-situ checks on all major equipment and commenced work on the automation and control systems.

In January 2017, a contract was awarded to commence all the piping, welding and assembly works, which continued throughout the year.

Key Construction Milestones
As of the end of 2017, designs for all main facilities are largely completed - the oxygen plant, principal POX Hub infrastructure, high pressure piping, welding and assembly works. This leaves the following major outstanding items to be completed during 2018 ahead of the scheduled POX plant commissioning in Q4 2018:

Pokrovskiy RIP refurbishment and integration into the POX hub:
  - To be completed by the end of September 2018.
- Low pressure POX facilities:
  - To be completed by mid-November 2018.
- POX control and automation systems:
  - To be completed by mid-September 2018.
- Other site infrastructure and auxiliary facilities:
  - To be completed by the end of July 2017.
- POX tailings facility:
  - To be completed by the end of February 2019.
  - There will be temporary tailings storage available for the commissioning and early ramp up stage.

In H2 2018, the POX Hub is scheduled to commence a staged dry and wet commissioning, one autoclave at a time. The commissioning of the oxygen plant is scheduled for Q2 2018 ahead of the autoclave commissioning. The ramp up to commercial production is due to occur throughout 2019.

Key Construction Milestones

2018

Malomir Flotation Plant	Due date
Concentrate production	Q2

POX Hub Construction	Due date
Piping + welding complete	Q2
Autoclaves complete	Q3
Pokrovskiy RIP refurbishment + integration	Q3

POX Hub Commissioning	Due date
Oxygen plant complete	Q2
Plant infrastructure (incl. steam plant, electrical, automation)	Q2
Autoclaves: staged dry commissioning	Q3
Autoclaves: staged wet commissioning	Q4

First Production	Q4

Underground

In line with its strategy of organic growth, in 2016 the Group commenced development of its underground operations to access high grade non-refractory ores, allowing for improvements in and for the de-risking of production output until refractory ore processing is ramped up to full capacity. In 2017 first production was achieved from the first two underground operations at Pioneer (NE Bakhmut) and at Malomir (Quartzitovoye). Both underground sites are trackless with decline access, and ore is mined using a sublevel open stope method with primarily unconsolidated rock back fill.

Successful exploration and the completion of technical studies in 2017 has enabled the preparation of mine designs and Ore Reserve estimates for two further sites at Pioneer, Andreevskaya and Nikolaevskaya. Andreevskaya's Reserves are located under depleted pits at Andreevskaya West and Andreevskaya East, where underground access can be gained easily from the open pit floor. The new Nikolaevskaya Reserves are estimated within a high grade pay shoot discovered in H2 2017, 120m below the surface, beneath the refractory open pit reserves.

Total Ore Reserves across Pioneer and Malomir now amount to 0.43Moz of gold at an average grade of 5.32g/t, a 16% increase compared to last year. It is estimated that these initial Reserves support a mine life of at least 5 years for Quartzitovoye and NE Bakhmut. The new Andreevskaya Reserves are non-refractory and are expected to contribute to Pioneer production from 2019; at present Andreevskaya's mine life is estimated at approximately two years. Preliminary metallurgical tests suggest Nikolaevskaya's underground Reserves are suitable for either RIP or POX processing. As POX is expected to result in better gold recovery, this material is currently conservatively classified as refractory, and as such mining is not scheduled until 2024, when refractory production at Pioneer is expected to reach full capacity. Group specialists continue metallurgical tests to improve Nikolaevskaya's RIP gold recovery. Should this work be successful, production from Nikolaevskaya may be brought forward. It is expected that Nikolaevskaya's current Reserves should support at least four years of production.

All ore bodies scheduled for underground mining are open in a down dip direction. Further exploration is expected to increase Reserves and extend mine life.

The simultaneous development of both NE Bakhmut and Quartzitovoye mines has proved to be challenging, and the Group faced some frustrating setbacks, particularly at NE Bakhmut. However, due to a conservative budgeting approach these delays did not have a material impact on the Group's overall production results and financial position.

Construction of the NE Bakhmut mine began in Q3 2016 and continued throughout 2017. The first development ore was produced in June 2017, and underground mining is now ramping up to full capacity.

Despite the delays, a total of 3,646m of underground developments were completed during 2017 at NE Bakhmut. A total of 35.1kt of ore at a grade of 2.78g/t was produced from NE Bakhmut in 2017. All necessary ventilation, dewatering and mine services are now in place and the construction of Pioneer's NE Bakhmut mine has been completed.

Development of the Malomir underground mine began in January 2017 with a delay of approximately one month due to slow contractor mobilisation. This delay was largely rectified by the end of Q3 2017 and the first development ore was produced in June from a new, previously unknown pay shoot in Zone 49. In Q3 2017, underground development reached Zone 55, the main high grade production area at Quartzitovoye 1. By the end of the year, a total of 73.6kt of ore with an average grade of 8.03g/t was produced. The grade mined was 17% higher than estimated due to the unexpectedly high grade of the stopes.

A total of 3,084m of underground development was completed at Quartzitovoye 1 during 2017. Ventilation and pumping facilities were also completed and Quartzitovoye is now a fully functioning, modern underground mine, which is expected to contribute a significant amount to Malomir gold output during 2018, whilst we transition to flotation and refractory processing there.

Reserves and Resources

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

Total Mineral Resource ounces (including Reserves) as of 31 December 2017 amounted to 20.86Moz, compared to 20.16Moz in 2016, with a total Reserve of 8.15Moz compared to 7.95Moz in the previous year. The increase in Mineral Resources is attributable to discoveries at Pioneer and Albyn, including Resource expansions at the NE Bakhmut 2 and Nikolaevskaya Zones (Pioneer) and at Unglichikan (Albyn), and also the discovery of the non-refractory satellite deposit Katrin (Pioneer).

The increase in Ore Reserves is attributable to open pit Reserve expansion at Elginskoye and Unglichikan, to an increase in underground Reserves at Pioneer, and to new open pit Reserves discovered via exploration at North East Bakhmut, Katrin as well as at the Otvalnaya Zone.

Taking into account the 0.47Moz depletion from mining operations during 2017, the Group achieved a 1.17Moz gross increase in Mineral Resources and a 0.67Moz gross increase in Ore Reserves, compared to the 2017 WAI statement.

Total Reserves for underground mining increased 16% from 0.37Moz to 0.43Moz, whilst underlying Mineral Resources for potential underground mining increased 26% from 0.72Moz to 0.93Moz. This increase is entirely at Pioneer, where new Mineral Resources and Ore Reserves have been estimated at the North East Bakhmut, Andreevskaya and Nikolaevskaya Zones.

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

Total Ore Reserves for open pit and underground extraction (as at 31 December 2017)
(in accordance with JORC Code)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	38,767	0.87	1.09
	Probable	213,125	1.03	7.06
	Proven+Probable	251,892	1.01	8.15
Non-Refractory	*Proven*	19,587	0.69	0.43
	Probable	103,383	1.09	3.62
	Proven+Probable	122,970	1.02	4.05
Refractory	*Proven*	19,180	1.06	0.65
	Probable	109,742	0.98	3.45
	Proven+Probable	128,922	0.99	4.10

Note: Figures may not add up due to rounding.

Total Ore Reserves for open pit extraction (as at 31 December 2017)
(in accordance with JORC Code)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	38,577	0.84	1.04
	Probable	210,790	0.99	6.68
	Proven+Probable	249,367	0.96	7.72
Non-Refractory	*Proven*	19,397	0.62	0.39
	Probable	101,597	1.02	3.33
	Proven+Probable	120,995	0.96	3.72
Refractory	*Proven*	19,180	1.06	0.65
	Probable	109,192	0.96	3.35
	Proven+Probable	128,372	0.97	4.01

Note: Figures may not add up due to rounding.

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

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	190	7.87	0.05
	Probable	2,335	5.12	0.38
	Proven+Probable	2,525	5.32	0.43
Non-Refractory	*Proven*	190	7.87	0.05
	Probable	1,785	5.02	0.29
	Proven+Probable	1,975	5.30	0.34
Refractory	*Proven*	–	–	–
	Probable	550	5.43	0.10
	Proven+Probable	550	5.43	0.10

Note: Figures may not add up due to rounding.

Total Mineral Resource for potential open pit and underground extraction (as at 31 December 2017)
(in accordance with JORC Code)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	55,522	0.96	1.71
	Indicated	426,170	0.90	12.39
	Measured+Indicated	481,693	0.91	14.10
	Inferred	256,913	0.82	6.76
Non-Refractory	*Measured*	33,430	0.96	1.04
	Indicated	218,702	0.96	6.78
	Measured+Indicated	252,133	0.96	7.82
	Inferred	105,818	1.00	3.41
Refractory	*Measured*	22,092	0.95	0.67
	Indicated	207,468	0.84	5.61
	Measured+Indicated	229,560	0.85	6.29
	Inferred	151,095	0.69	3.35

Note: Figures may not add up due to rounding.

Total Mineral Resource for potential open pit extraction (as at 31 December 2017)
(in accordance with JORC Code)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	55,380	0.95	1.68
	Indicated	422,904	0.86	11.74
	Measured+Indicated	478,283	0.87	13.43
	Inferred	254,733	0.79	6.50
Non-Refractory	*Measured*	33,287	0.94	1.01
	Indicated	216,179	0.91	6.30
	Measured+Indicated	249,467	0.91	7.31
	Inferred	104,337	0.96	3.21
Refractory	*Measured*	22,092	0.95	0.67
	Indicated	206,724	0.82	5.44
	Measured+Indicated	228,816	0.83	6.11
	Inferred	150,396	0.68	3.29

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

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

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	143	5.87	0.03
	Indicated	3,267	6.19	0.65
	Measured+Indicated	3,409	6.18	0.68
	Inferred	2,181	3.67	0.26
Non-Refractory	*Measured*	143	5.87	0.03
	Indicated	2,523	5.88	0.48
	Measured+Indicated	2,666	5.88	0.50
	Inferred	1,481	4.17	0.20
Refractory	*Measured*	–	–	–
	Indicated	743	7.27	0.17
	Measured+Indicated	743	7.27	0.17
	Inferred	699	2.62	0.06

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

Summary of Ore Reserves by asset (as at 31 December 2017)

Pioneer
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	19,962	0.68	0.44
	Probable	88,472	0.88	2.50
	Proven+Probable	108,434	0.84	2.94
Non-Refractory Open Pit	*Proven*	10,479	0.52	0.17
	Probable	40,441	0.73	0.95
	Proven+Probable	50,920	0.69	1.12
Non-Refractory Underground	*Proven*	74	4.03	0.01
	Probable	876	5.60	0.16
	Proven+Probable	950	5.48	0.17
Subtotal Non-Refractory (Open Pit and Underground)	*Proven*	10,553	0.54	0.18
	Probable	41,318	0.83	1.11
	Proven+Probable	51,870	0.77	1.29
Refractory Open Pit	*Proven*	9,409	0.85	0.26
	Probable	46,605	0.87	1.30
	Proven+Probable	56,014	0.86	1.55
Refractory Underground	*Proven*	–	–	–
	Probable	550	5.43	0.10
	Proven+Probable	550	5.43	0.10
Subtotal Refractory (Open Pit and Underground)	*Proven*	9,409	0.85	0.26
	Probable	47,154	0.92	1.39
	Proven+Probable	56,564	0.91	1.65
Subtotal Open Pit (Non-Refractory and Refractory)	*Proven*	19,888	0.67	0.43
	Probable	87,046	0.80	2.25
	Proven+Probable	106,934	0.78	2.68
Subtotal Underground (Non-Refractory and Refractory)	*Proven*	74	4.03	0.01
	Probable	1,426	5.53	0.25
	Proven+Probable	1,500	5.46	0.26

Albyn
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	6,624	0.53	0.11
	Probable	57,310	1.19	2.20
	Proven+Probable	63,933	1.12	2.31
Non-Refractory Open Pit	*Proven*	6,624	0.53	0.11
	Probable	57,310	1.19	2.20
	Proven+Probable	63,933	1.12	2.31
Refractory Open Pit	*Proven*	–	–	–
	Probable	–	–	–
	Proven+Probable	–	–	–

Note: Figures may not add up due to rounding.

Malomir
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	9,910	1.37	0.44
	Probable	65,148	1.08	2.27
	Proven+Probable	75,058	1.12	2.70
Non-Refractory Open Pit	*Proven*	23	0.83	0.001
	Probable	1,651	1.54	0.08
	Proven+Probable	1,674	1.53	0.08
Non-Refractory Underground	*Proven*	116	10.32	0.04
	Probable	909	4.46	0.13
	Proven+Probable	1,025	5.13	0.17
Subtotal Non-Refractory (Open Pit and Underground)	*Proven*	139	8.75	0.04
	Probable	2,560	2.58	0.21
	Proven+Probable	2,699	2.90	0.25
Refractory Open Pit	*Proven*	9,771	1.26	0.40
	Probable	62,588	1.02	2.05
	Proven+Probable	72,358	1.05	2.45
Subtotal Open Pit (Non-Refractory and Refractory)	*Proven*	9,794	1.26	0.40
	Probable	64,239	1.03	2.14
	Proven+Probable	74,033	1.06	2.53

Pokrovskiy
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Proven*	244	0.59	0.005
	Probable	–	–	–
	Proven+Probable	244	0.59	0.005
Non-Refractory Open Pit	*Proven*	244	0.59	0.005
	Probable	–	–	–
	Proven+Probable	244	0.59	0.005
Refractory Open Pit	*Proven*	–	–	–
	Probable	–	–	–
	Proven+Probable	–	–	–

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

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

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

Note: All Tokur Ore Reserve is for open pit extraction

Notes on Ore Reserve statement:

(1) Group Ore Reserves statements are prepared internally as an update of the April 2017 WAI estimate; Pioneer, Malomir and Albyn Reserves are prepared in February 2018 in accordance with JORC Code 2012; Tokur Reserves are prepared in 2010 in accordance with JORC Code 2004 and there have been no changes to the Tokur estimates since that date; All Pokrovskiy Ore Reserves are expected to be depleted by the end of Q1 2018, Pokrovskiy Reserve figures in this statement are based on January 2018 actual production and the February-March 2018 Group internal production plan

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

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

(4) Underground Ore Reserve estimates use a mine design with decline access, trackless mining equipment and a sublevel open stope mining method with or without back fill

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

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

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

- *Pioneer: 5,009kt@0.68g/t (0.11Moz) of non-refractory and 4,417kt @ 0.68g/t (0.10Moz) of refractory*
- *Malomir: 484kt @ 2.59g/t of non-refractory and 2,013kt@0.86g/t (0.06Moz) of refractory*
- *Albyn 2,345@1.27g/t (0.1Moz) of non-refractory*

(8) Figures may not add up due to rounding

Summary of Mineral Resources by asset (as at 31 December 2017)

Pioneer
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	24,621	0.69	0.55
	Indicated	165,820	0.77	4.12
	Measured+Indicated	190,441	0.76	4.66
	Inferred	66,396	0.67	1.44
Non-Refractory Open Pit	*Measured*	10,923	0.53	0.20
	Indicated	73,636	0.66	1.56
	Measured+Indicated	84,559	0.64	1.75
	Inferred	22,188	0.62	0.44
Non-Refractory Underground	*Measured*	105	4.36	0.01
	Indicated	1,389	6.82	0.30
	Measured+Indicated	1,494	6.65	0.32
	Inferred	584	4.18	0.08
Subtotal Non-Refractory (Open Pit and Underground)	*Measured*	11,028	0.57	0.20
	Indicated	75,026	0.77	1.87
	Measured+Indicated	86,053	0.75	2.07
	Inferred	22,773	0.71	0.52
Refractory Open Pit	*Measured*	13,593	0.79	0.34
	Indicated	90,051	0.72	2.07
	Measured+Indicated	103,644	0.73	2.42
	Inferred	42,925	0.62	0.85
Refractory Underground	*Measured*	–	–	–
	Indicated	743	7.27	0.17
	Measured+Indicated	743	7.27	0.17
	Inferred	699	2.62	0.06
Subtotal Open Pit (Non-Refractory and Refractory)	*Measured*	24,516	0.67	0.53
	Indicated	163,687	0.69	3.64
	Measured+Indicated	188,204	0.69	4.17
	Inferred	65,113	0.62	1.30
Subtotal Underground (Non-Refractory and Refractory)	*Measured*	105	4.36	0.01
	Indicated	2,133	6.98	0.48
	Measured+Indicated	2,238	6.86	0.49
	Inferred	1,283	3.33	0.14

Albyn
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	6,785	0.54	0.12
	Indicated	79,944	1.19	3.06
	Measured+Indicated	86,728	1.14	3.17
	Inferred	48,732	1.14	1.78
Non-Refractory Open Pit	*Measured*	6,785	0.54	0.12
	Indicated	79,944	1.19	3.06
	Measured+Indicated	86,728	1.14	3.17
	Inferred	48,732	1.14	1.78
Refractory Open Pit	*Measured*	–	–	–
	Indicated	–	–	–
	Measured+Indicated	–	–	–
	Inferred	–	–	–

Note: All Albyn Mineral Resources is for open pit extraction

Malomir
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	8,567	1.25	0.34
	Indicated	135,297	0.90	3.90
	Measured+Indicated	143,864	0.92	4.24
	Inferred	120,667	0.73	2.82
Non-Refractory Open Pit	*Measured*	30	1.12	0.001
	Indicated	17,490	0.64	0.36
	Measured+Indicated	17,520	0.65	0.36
	Inferred	12,299	0.67	0.27
Non-Refractory Underground	*Measured*	38	10.04	0.01
	Indicated	1,134	4.72	0.17
	Measured+Indicated	1,172	4.89	0.18
	Inferred	897	4.16	0.12
Subtotal Non-Refractory (Open Pit and Underground)	*Measured*	68	6.08	0.01
	Indicated	18,624	0.89	0.53
	Measured+Indicated	18,692	0.91	0.55
	Inferred	13,196	0.91	0.39
Refractory Open Pit	*Measured*	8,499	1.21	0.33
	Indicated	116,673	0.90	3.36
	Measured+Indicated	125,172	0.92	3.73
	Inferred	107,471	0.70	2.43
Subtotal Open Pit (Non-Refractory and Refractory)	*Measured*	8,529	1.21	0.33
	Indicated	134,163	0.86	3.73
	Measured+Indicated	142,692	0.88	4.06
	Inferred	119,770	0.70	2.70

Note: Figures may not add up due to rounding.

Reserves and Resources continued

Pokrovka&Burinda
(in accordance with JORC Code 2012)

	Category	Tonnage (kt)	Grade (g/t Au)	Gold (Moz Au)
Total	*Measured*	3,598	1.75	0.20
	Indicated	29,013	0.83	0.77
	Measured+Indicated	32,611	0.93	0.98
	Inferred	10,412	1.04	0.35
Non-Refractory	*Measured*	3,598	1.75	0.20
	Indicated	29,013	0.83	0.77
	Measured+Indicated	32,611	0.93	0.98
	Inferred	10,412	1.04	0.35
Refractory	*Measured*	–	–	–
	Indicated	–	–	–
	Measured+Indicated	–	–	–
	Inferred	–	–	–

Note: All Albyn Mineral Resources is for open pit extraction

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

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

Note: All Tokur Mineral Resources is for open pit extraction

Notes to Mineral Resource Statement:

(1) Mineral Resources include Ore Reserves.

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

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

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

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

(6) Mineral resources are not reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.

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

(8) Figures may not add up due to rounding

Exploration Update

Pioneer
Pioneer is considered to be one of the Group's most prospective projects for future resource and reserve discoveries. Pioneer consists of the Pioneer ore body and the Alexandra, Katrin and Zheltunak satellite ore bodies. The Pioneer ore body comprises of several zones, of which Andreevskaya and North East Bakhmut are high grade and to date have provided the majority of Pioneer production. Pioneer and Alexandra have both refractory and non-refractory resources and reserves whilst Katrin and Zheltunak are entirely non-refractory.

In addition to the known ore bodies and zones, Pioneer's 1,337km^2 license area offers a number of exploration opportunities for both non-refractory and refractory resources, including high grade exploration targets.

Pioneer's 2017 exploration programme was successful, leading to the expansion of Pioneer's Resources and Reserves, and to the identification of promising new exploration targets.

Significant 2017 results include:

- identification of further down dip extensions of the high grade pay shoot at NE Bakhmut No 2, which remains open at depth offering further potential for underground resource and reserve expansion;
- subsequent expansion of NE Bakhmut JORC Reserves for underground mining;
- discovery of a high grade pay shoot at Nikolaevskaya;
- first JORC Reserves for underground mining at Andreevskaya and Nikolaevskaya;
- identification of JORC Resources and Reserves at Katrin, a satellite deposit discovered in 2016 south of Pioneer; and
- discovery of two new zones of non-refractory mineralisation north of NE Bakhmut No 2 that are suitable for open pit mining, and subsequent JORC Reserve estimates for them.

Drilling and trenching has also confirmed the presence of large-scale refractory gold mineralisation at the geochemical anomaly south of Pioneer identified within the Sosnovaya license.

Katrin
Katrin is a high grade, non-refractory satellite deposit situated south of Pioneer. It is located within the same geological setting as the Zheltunak deposit, which has been mined since 2011, producing 926kt of ore at an average grade of 1.91g/t Au (57koz of contained gold).

Katrin is confined within a silification zone hosted by Cretaceous volcanites. To date, mineralisation has been traced by exploration drilling over a 1km strike length to a depth of up to 200m from the surface. It remains open in both strike directions as well as down dip, offering the opportunity for further discoveries. Exploration here continued in Q1 2018 and Group geologists expect a further increase in Katrin's Mineral Resources and Reserves during 2018.

NE Bakhmut
In 2017, underground resource and reserve exploration took place at NE Bakhmut, consisting of surface and underground drilling and underground development. The most significant results were in the NE Bakhmut No 2 area. Two new zones of mineralisation potentially suitable for open pit mining were discovered north from the depleted pit at NE Bakhmut No 2.

The first, Oblomochnaya, is a shallow, sub-horizontal mineralised zone only 30-35m below the surface. Geological interpretations suggest that this zone was formed as a result of NE Bakhmut's hard rock ore body being eroded and material being deposited, forming a soft oxide mineralised seam which later was buried under a layer of Neogenic sand formation. Metallurgical tests have confirmed that the material is suitable for RIP processing. It is expected that both the overburden and the ore will be amenable to free digging, making it a low cost open pit mining target.

Whilst exploring Oblomochnaya, a second new zone was identified directly below it. To date, the new zone has been intersected by three drill holes only, with the best intersections including 5.3m at 1.64g/t and 5.2m at 7.56g/t. It remains open in a down dip direction and in both strike directions.

Surface drilling proved a high-grade pay shoot mined from the open pit at NE Bakhmut No 2 to a depth of 140m below the pit floor. The best deep intersection is 19.6m@10.90g/t. The pay shoot is 145m long and remains open in a down dip direction. There are several further high-grade intersections including 1.1m@8.10g/t and 1.0m@19.30g/t, which belong to smaller parallel zones and/or apophysis; these await follow up exploration.

Alexandra Area
In 2017, drilling discovered additional low-grade mineralisation at the Shirokaya Zone and a c.500m long extension to the Brekchievaya Zone. Subsequent interpretations and resource modelling completed in 2017 resulted in the conclusion that the new mineralisation discovered at Brekchievaya appears to be high grade, though it is also narrow and discontinuous, which makes it a low priority mining target. New mineralisation identified at Shirokaya is relatively low grade and predominantly refractory. Nevertheless, 2017 Alexandra exploration added c.79koz of refractory Resources including c.27koz of refractory Reserves to the Pioneer Project.

Nikolaevskaya
A new high-grade pay shoot was discovered in Q3 2017 and explored during Q4 2017 at the Nikolaevskaya Zone, below a previously known resource for potential open pit mining. The pay shoot is situated between 120 and 270m from surface and remains open at depth. A Resource estimate completed on the explored part of the Nikolaevskaya is 200koz at an average grade of 5.66g/t, of which c.96koz has already been classified as Reserves. Preliminary metallurgical test results suggest that although this material is amenable to RIP processing, it may be more suitable for flotation and POX, as the latter is expected to give a better gold recovery. Group specialists continue metallurgical tests with the aim of improving RIP recovery at Nikolaevskaya, which would allow production to be brought forward from this new pay shoot. The current Resource and Reserve statement classifies this material as refractory.

Group geologists believe Nikolaevskaya is less eroded than the Andreevskya and NE Bakhmut zones, which to date have been prime sources of the c.2.4Moz gold produced from Pioneer. As such, Nikolaevskaya is thought to have significant potential for the discovery of further high-grade mineralisation at depth.

Sosnovaya
Trenching and drilling completed in late 2016 at a 9km long geochemical anomaly at Sosnovaya confirmed the presence of low-grade gold mineralisation with selected intersections including:

- 14.2m@0.80g/t (drill hole C-182-4, interval 26.7 - 40.9m);
- 42.6m@0.31g/t (drill hole C-599-11, interval 36.4 - 79.0m); and

– 1.3m@1.14g/t (trench K-622-3, interval 227.5 - 228.8m).

Mineralisation discovered so far is too low grade to represent immediate economic interest. However, since almost every drill hole completed intersected low-grade gold halos (0.1 – 0.3g/t), indicating extensive hydrothermal processes, these results are still considered encouraging. Group geologists are analysing the results, updating their exploration model and intend to continue exploring this target in the future.

Albyn

The Albyn project consists of three licenses with an aggregated area of 1,053.1km^2. This includes the main Albyn ore body, a number of known satellite ore bodies, namely Elginskoye, Unglichikan and Afanasevskoye as well as exploration targets, of which Ulgen, Leninskoye and Yasnoye are the most significant.

2017 exploration gave the following significant results:

– Extensions to the Unglichikan ore body were identified and explored, contributing to Resources and Reserves.

– Ulgen exploration identified a 3km long zone of gold mineralisation, which could potentially provide significant additions to Albyn Resources.

– A new high grade zone of gold mineralisation, Sukholozhskiy, proved close to Albyn with underground as well as open pit mining potential.

Unglichikan

In 2017, exploration at Unglichikan continued with drilling at the south group of mineralised zones over a strike length of 1,200m. The 2017 drilling results confirmed known mineralisation and extended it down dip to a depth of 90 to 130m from the surface. The last down dip intersections include 4.7m at 5.34g/t, 14.7m at 2.97g/t, and 0.8m at 26.9g/t where both grade and thickness appear to increase with depth, suggesting there may also be potential for underground mining at Unglichikan.

These 2017 drilling results have supported an increase in JORC Resources at Unglichikan from 0.84 to 1.07Moz.

Ulgen

In 2017, exploration also continued at Ulgen, located c.30km south west from the Albyn plant in an area of extensive historical alluvial gold production. The best new trench intersections include 7.0m@5.11g/t, 5.0m@3.58g/t and 2.0m@2.84g/t. Exploration completed to date, which includes 80m to 350m spaced trenches and six drill holes, proved gold mineralisation extends along the strike for 3km. It remains open in both strike directions as well as in a down dip direction. Exploration results at Ulgen are very encouraging as there are many similarities with Elginskoye, where JORC Resources currently stand at 2.8Moz. Despite this no further exploration is planned at Ulgen in 2018 as due to its remote location and lack of local infrastructure it is unlikely to offer an immediate production upside. Ulgen remains a significant exploration target and work is expected to resume in the future.

Albyn- Sukholozhskiy Zone

The Sukholozhskiy Zone is a zone of gold mineralisation discovered approximately 600m west from the Albyn pit in early 2010. Exploration completed in 2010 and 2011 could not identify an attractive mining target, though further exploration drilling completed later in 2016 and 2017 discovered a c.700m long zone of mineralisation of complex morphology, which remains open in a down dip direction. This zone is expected to be suitable for combined open pit and underground mining although formal resource and reserve estimates are yet to be completed to confirm this. High-grade drill intersections at the Sukholozhskiy Zone include:

– 2.3m@6.87g/t

– 1.0m@9.40g/t

– 1.7m@5.60g/t

– 1.0m@6.30g/t

– 7.3m@4.37g/t

– 2.0m@37.1g/t

Sukholozhskiy offers opportunities for further resource expansions for both open and underground mining and additional exploration drilling is warranted.

Malomir

Malomir is one of the Group's principal projects located in the north east of the Amur region. With c.87% of its Resources and Reserves classified as refractory, it set to become a principal source of refractory concentrate for the Pokrovskiy POX Hub. The Project has a combined total license area of 821.3km^2. Licenses cover Malomir, Quartzitovoye, Ozhidaemoye, Magnetitovoye and Berezovoye ore bodies, as well as a number of exploration targets. 2017 exploration at Malomir primarily focused on the Quartzitovoye underground mine and most of the work was located within previously known mineralisation. It comprised of grade control sampling and underground stope definition drilling. As such, 2017 Malomir exploration did not result in a material increase in the Project's Resources and Reserves.

Following successful exploration drilling at Quartzitovoye in 2016, a maiden non-refractory Reserve was defined in early 2017, underpinning an initial six year production plan for high grade underground mining. This exploration drilling confirmed that high-grade mineralisation remains open at depth, with the deepest holes greater than 440m below the surface (245m below the open pit floor), intersecting attractive grades and thicknesses.

In May 2017, underground developments at Quartzitovoye led to the discovery of a previously unknown high-grade pay shoot producing three intersections: 5.32m@69.9g/t, 1.8m@42.9 g/t and 1.01m@12.2 g/t. The pay shoot is steep dipping, hosted within low-grade zone No 49 which was mined from the open pit approximately 90m above. It appears this high-grade shoot is controlled by an intersection between the structure of zone No 49, striking north-south, and a steep east-west contact between plagiogranites and schists.

By the end of 2018 the pay shoot has been explored by underground workings on 390m and 375m levels. It now has a proven strike length of c.55m, an average thickness of c.3m with an average grade of c.14g/t and grades of up to 458g/t in selected samples. It remains open in both up and down directions. It is also considered possible that other similar pay shoots could be discovered within zone 49, which has a total strike length of 280m.

With Malomir starting production from its large refractory Reserves, there are no plans to intensify exploration here in 2018 and work will continue at the Quartzitovoye underground mine.

IRC

IRC produces and develops industrial commodities. Based in the Russian Far East, it benefits from low production costs and proximity to the Chinese border, China being the world's largest consumer of IRC's main product, iron ore. IRC was part of Petropavlovsk's Non Precious Metals Division before it was listed on the Hong Kong Stock Exchange in 2010 (stock code 1029). Petropavlovsk is a shareholder of IRC (31.1%) and is the guarantor of the US$340 million project finance facility to develop the K&S mine (US$234 million principal outstanding, as at 31 December 2017). It should be noted that IRC is an associate of Petropavlovsk and not a subsidiary.

IRC assets

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

- K&S: an asset producing premium 65% iron ore concentrate with a 20 year mine life, located in the Jewish Autonomous Region (EAO) of the Russian Far East. The project is currently in phase one of two phases and is expecting to ramp up to full capacity of 3.2Mtpa in 2018.
- Kuranakh: an iron ore/ilmenite concentrate mine located in the Amur region, Russian Far East, which is currently in a state of care and maintenance.
- Garinskoye: also located in the Amur region, this project is at an advanced stage of exploration with Probable Ore Reserves as well as Indicated and Inferred Mineral Resources.

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

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

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

In addition to these assets, IRC also operates:

- Giproruda: based in St Petersburg and 70% owned by IRC, Giproruda is a technical mining and research consultancy; and
- SRP: a steel slag reprocessing plant located in Heilongjiang, North East China. It is a joint venture between IRC, which owns 46%, and one of its largest iron ore customers. However, as Kuranakh has been moved to care and maintenance, with no alternative feedstock for the plant, SRP was also placed into care and maintenance in 2017.

Operational performance in 2017

K&S

In 2017, K&S continued to make good progress with the phase one ramp up, transitioning from a development project into a cash generating mine. Once completed and fully ramped up, phase one is expected to result in the annual production of 3.2 million tonnes of iron ore concentrate with a 65% iron (Fe) content. As iron ore prices continued their uptrend in 2017, the benchmark 65% Fe Platts spot price index averaged US$81 per tonne.

Annual production of iron ore concentrate increased 339% to 1,563,066 tonnes, with the plant operating at a steady state capacity of approximately 70% and rising in March 2018. A successful 24 hour loading test at 90% capacity took place earlier in the year, without the assistance of a drying unit, an essential part of the K&S production line in extreme cold as it removes excessive moisture from the iron ore concentrate to prevent the product from freezing. However, technical issues with the drying unit encountered due to poor quality contractor work impacted on output at K&S, hindering the plant's ability to operate at full load.

During the year, K&S also experienced some delay in transporting products to customers using the Trans-Siberian Railway. Already burdened by high traffic volumes of thermal coal shipments during the winter, further congestion delays were caused by heavy torrential rain. While the congestion issue was gradually resolved by the Russian railway authority, K&S successfully signed a new offtake contract with a Russian customer. Railway congestion impacted shipments travelling eastwards to customers in China, though did not affect shipments to the Russian customer, based west of K&S.

With regards to the K&S project finance facility, ICBC agreed to restructure the remaining repayments of c.US$234m as part of a debt service holiday. Accordingly, two repayment instalments originally due in 2017 and amounting to c. US$43 million shall now be repayable as part of five subsequent instalments. For details, please refer to IRC's announcements dated 27 February and 21 March 2017.

Kuranakh

Kuranakh was moved to care and maintenance in the beginning of 2016 in response to a challenging operating environment and lower iron prices. There were no sales of iron ore concentrate or ilmenite from Kuranakh in 2017. The care and maintenance programme involves limited costs to keep the mine and plant available for reopening in the future. Prior to being moved to care and maintenance, Kuranakh produced approximately 1.1 million tonnes of iron ore concentrate and 0.2 million tonnes of ilmenite per annum. The potential to restart the Kuranakh mine may represent significant upside for IRC shareholders.

Garinskoye

Garinskoye remains an attractive, low cost, large scale, DSO style greenfield project. IRC did not develop it in 2016 due to capital constraints, but continues to monitor market conditions for future opportunities.

Investment in IRC

In January 2013, IRC entered into conditional agreements for a US$238 million subscription for new IRC Shares by General Nice Development Limited ('General Nice'), a member of a group of companies which collectively is one of the largest Chinese iron ore importers, and Minmetals Cheerglory, a wholly owned subsidiary of China Minmetals Corporation. Liquidity constraints have resulted in General Nice, to date, completing c.80% of its planned investment. Investment from Minmetals Cheerglory can only occur once the subscription by General Nice has been completed.

Although full completion of the investment from General Nice and Minmetals has been delayed, General Nice has agreed to commence paying interest on the outstanding investment amount of US$38 million from December 2014 onwards, although no interest payments have been made by General Nice to IRC as at 31 December 2017.

FY 2017 Financial Results

2017 has been a year of growth for IRC, with reported iron ore concentrate sales of over 1.5 million tonnes, a sixfold increase compared to 2016 and at double the selling price of US$78 per tonne (2016: US$39 per tonne). In addition, apart from a significant EBITDA contribution from K&S, IRC recorded an impairment loss reversal in 2017, resulting in a positive turnaround of attributable profit totalling US$113 million, compared to an attributable loss of US$18 million in 2016. Underlying losses for the year reduced by 10% to US$16 million. Overall, the results demonstrate the transformation of K&S from a developing project to a cash generating mine.

Key Performance Indicators

Our key performance indicators appear throughout this report and introduce the operational and sustainability sections and the CFO statement respectively (pages 33, 65 and 81).

Lost Time Injury Frequency Rate

Year	LTIFR
2017	3.11
2016	2.64
2015	2.63

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

Relevance
To ensure that the Group's occupational health and safety policies are implemented effectively, the health and safety team continues to enforce the use of personal protective equipment, risk identification and mitigation, and individual actions to improve personal safety at the Group's operations. One of the key indicators that the Group relies upon to identify trends and areas of focus is the LTIFR.

This is an integral part of a complex system covering a database of statistics, training programmes and operating parameters used for regular analysis and control. Use of this KPI helps to ensure the Group's compliance with Russian legislation, and provides the Group with a basis for continuous improvement.

Performance in 2017
For the year ended 31 December 2017, Group operations recorded a LTIFR of 3.11 accidents per million man hours worked. It is with the utmost regret that we report three fatalities in 2017. The first accident occurred at Pioneer in January, when a bulldozer operator fell through ice. The second incident occurred at a Malomir construction site in July, when an employee was hit by unsecured apparatus and suffered a fall. The third, in December, involved an employee at a truck repair facility, who undertook work without realising the vehicle's transmission was still engaged.

In order to minimize the possibility of such serious incidents reoccurring, and in pursuit of a zero-injury target, actions were taken to raise employee awareness of each incident and lessons were learned in order to avoid such accidents in future. This information was communicated to all sites and subdivisions, to reinforce health and safety principles in all activities, and focus on mandatory job-specific rules and regulations to protect employees.

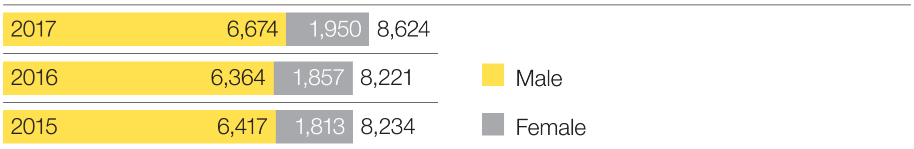
Additional initiatives to reinforce employee responsibility for a safer workplace (individually and collectively), included a review and revision of job descriptions to reflect lessons learnt from recent accidents. Furthermore, to identify and address any gaps in knowledge of safety procedures, exams and training were conducted amongst employees of relevant departments.

Going Forward
As a matter of priority, senior management continue to encourage greater awareness of health and safety matters amongst Group staff on an ongoing basis. The Group continues to improve the quality of the working environment across all sites, and, where applicable, introduce advanced collective and personal protection systems. This is, in part, facilitated by the internal corporate communications team, which uses a range of materials, including the Group corporate newspaper, made available to all employees, to highlight health and safety issues.

It is the Group's intention to:
- Analyse and draw relevant lessons from historical records
- Develop an action plan to improve safety performance
- Implement plan and monitor performance
- Update the Group's safety systems and processes as appropriate, in line with overall Group strategy

Key Performance Indicators continued

Total Headcount and Gender Split



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

Relevance
This KPI helps management to keep track of not only the size of the workforce over time but also to ensure that there is a balanced split of male and female employees throughout the business. Management firmly believes that the Group's ongoing success depends in part on its ability to hire, motivate, develop and retain staff with the right skills and experience, to help them master challenges and make the most of opportunities. Although traditionally the mining industry in Russia has been heavily male dominated, the Group actively seeks to apply meritocratic principles and provides equal opportunities and pay for all employees, regardless of gender. Female employees occupy senior positions across the business and include departmental heads, deputy directors, chief accountants and managers of laboratories. Petropavlovsk is also the first and only mining company in Russia to provide the opportunity for women to work as heavy machine operators, driving 90-ton haul trucks.

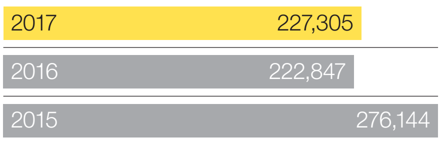
Performance in 2017
Total headcount increased by 5% in 2017 to 8,624 employees across the Group.

Of this total, women made up 23% of the workforce and men 77%. During 2017, the number of female employees hired by the Group increased by 93 (+5%) to 1,950, and the proportion of female staff is higher in office roles. The proportion of female staff with higher education qualifications is 30% (534), while among men this share is lower, at 14% (851 people).

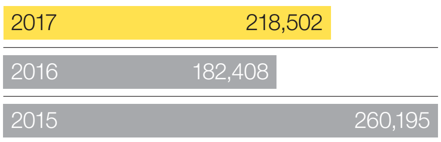
Going forward
Petropavlovsk conducts staff diversity reviews on an ongoing basis. The Group is committed to operating as a responsible employer, promoting the fair treatment, non-discrimination, and equal opportunity of workers as required under both Russian and UK law. As the business continues to grow,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

Greenhouse Gas ('GHG') Emissions

Combustion of fuel and operation of facilities (Tonnes of CO_2e)



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



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

Methodology

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

We have adopted methodology for the planning and reporting of Green House Gases (GHG) according to the laws of the Russian Federation and have used one of the formulae, as approved under this legislation, for calculating the 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 are reported by the generator. However, for transparency purposes, the GHG emissions associated with our consumption of electricity have been reported below. This is measured in tonnes of carbon dioxide and calculated using the IEA electricity conversion factor for the Russian Federation of 0.37959 kilograms of CO_2 equivalent per kilowatt hour. All emissions quoted below are Gross as no deductions, for export of renewable energy or purchase of certified emission reduction, are applicable.

As a producer of gold, our prime metric is the amount of gold produced in a calendar year, measured in ounces. In 2017, Petropavlovsk produced 439.6koz and has used this figure to calculate our intensity metric.

Source Of Emissions

Emissions come from the following sources:

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

Verification / Assurance

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

Relevance

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

Going Forward

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

Interim CEO's Statement

Since the foundation of Petropavlovsk in 1994, sustainability has been at the core of its business strategy and today, as a major presence in the Amur region, the Company remains committed to developing its approach.

Health and safety is surely one of the most significant challenges facing the Group, and across its operations Petropavlovsk maintains a zero-injury target, which it is dedicated to achieving. Tragically, despite these efforts, there were 3 fatalities at Petropavlovsk in 2017. This is clearly unacceptable and the Group is committed to ensuring that we operate safely at all times. All accidents were carefully analysed, lessons were learned and necessary preventative measures have been taken, as disclosed in the LTIFR section of this annual report.

In 2018, Petropavlovsk will continue to develop underground mining, flotation and autoclave technologies, all of which are deemed to be high risk. Health and safety remains our foremost priority. The professionalism and dedication of all employees involved, on whom our health and safety depends, is clear to me and gives me confidence that these tasks will be successfully accomplished in a safe and responsible manner.

Petropavlovsk has a strong team focused on environmental management and has upheld a strong track record of performance for many years. Acting on its own initiative, the Group previously gained an international certification in this field, and in 2017 Petropavlovsk's environmental management system received an accreditation of compliance. This applies to each mine and is in accordance with the international standard GOST R ISO 14001-2016 (ISO 14001:2015).

We at Petropavlovsk aim to foster an environment that promotes motivation, loyalty and professionalism amongst its employees. The number of family members and long service workers that we have retained demonstrates that Petropavlovsk continues to be an attractive place to work.

Sergey Ermolenko
Interim CEO

"Petropavlovsk has a strong team focused on environmental management and has upheld a strong track record of performance for many years."

Approach to Sustainability

At Petropavlovsk, our objective is to act in the interests of our stakeholders, including shareholders, employees and the communities in which we operate, by ensuring all our activities are efficient, responsible, transparent and sustainable.

We seek to provide a fair return to our shareholders. We aim to ensure a safe working environment and just remuneration for our employees. We play an important role in the regions where the Group operates and seek to contribute to their economic and social development. We give high priority to our responsibilities to local communities and enjoy their active support. We believe that mining companies have a particular responsibility to care for the environment and to mitigate the impact of their operations.

Sustainable development has been a key focus for the Group since its foundation.

In its management and operations, Petropavlovsk is committed to:

- full compliance with the legislation of the Russian Federation;
- a rigorous approach to health and safety, underpinned by close scrutiny by the Board and management. The Group's objective is to minimise the risk of accidents and of occupational illnesses, and to aim for zero fatalities. All accidents are recorded, and all serious accidents are investigated;
- a rigorous approach to environmental standards, implemented both through internal compliance measures and through external expert auditing and monitoring
- provision of good working facilities, high-quality equipment, and suitable living conditions at the Group's mining operations;
- provision of appropriate and high-quality training for its employees and opportunities for career development;
- investment in initiatives to support education in the regions where the Group operates;
- promotion of the social and economic development of these regions both through the widening scope of the Group's operations and with the assistance of the Petropavlovsk Foundation for Social Investment;
- an active dialogue with local communities and local and regional authorities to maintain a transparent, two-way flow of information and to sustain long-term, constructive relationships between the Group and these communities;
- fair and supportive management, with appropriate procedures developed for handling disputes and grievances;
- zero tolerance of bribery and corruption and strict compliance with the relevant legislation of the Russian Federation and the United Kingdom; and
- the ongoing development of mine closure plans.

Sustainability Policy and Action Plan

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

Our Corporate Values

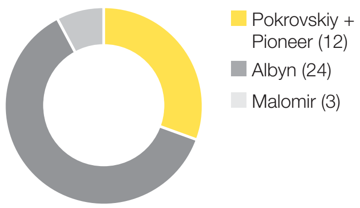
- We aim to operate such that we avoid causing harm to employees, the environment and local communities.
- Work-related incidents, illnesses and injuries are preventable.
- Foreseeable hazards and environmental impacts must be identified, the associated risk assessed and, where reasonably practical eliminated, or minimised.
- We respect the human rights of our workers, suppliers and host communities.
- There is a safe and correct way of doing every task, however urgent or important.
- All employees are responsible for their own actions and the workplace health and safety of their fellow workers.
- Health, safety and environmental performance and community engagement can be continually improved.

Our Guiding Principles

- We will implement and maintain ethical business practices and sound systems of corporate governance.
- We will integrate sustainable development considerations within the corporate decision-making process.
- We will uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities.
- We will implement risk management strategies based on valid data and sound science.
- We will seek continual improvement of the Company's health and safety performance.
- We will seek continual improvement of the Company's environmental performance.
- We will contribute to conservation of biodiversity and integrated approaches to land use planning.

Case Study: Female Truck Drivers

Number of female CAT-777 drivers



Petropavlovsk is the first and so far the only company in Russia that has decided to follow the success of Western countries and provide opportunities for women to work as drivers of 90-ton haul trucks. This responsible and well-paid work gives women in the Amur Region an opportunity to realise their potential and benefit from some of the highest salaries among labourers in the mining industry.

The opportunity for women to learn how to drive the heavy-duty trucks was met with great interest among potential applicants, and admission was highly competitive. The first enrolment to the Pokrovskiy Mining College was in 2010. After 6 months of training, this first group of students (9 women) successfully passed their exams and began working at Petropavlovsk. It was considered a successful experiment.

Tuition fees and accommodation at the college are both free. Each applicant must hold a category B driver's license and be aged between 30 and 45. The training lasts six months and includes three stages: theory, training for driver category C, and production practice at the Pokrovskiy mine quarries.

Since 2010, the Pokrovskiy Mining College has trained 53 female drivers of CAT-777; today, 39 female drivers work at Group enterprises.

"I have been working at Petropavlovsk since 2011 and was amongst the first group of female drivers to study at the Pokrovskiy Mining College. My natural interest in engineering and mechanics probably helped me to complete the course successfully. I feel confident in my abilities, am comfortable working and feel I am where I belong. What I like most is to delve into the finer details of how the truck is constructed. Although the driver does not engage in repair, I am always keen to understand what the cause of the breakdown is and how to drive in order that it doesn't happen in the future."

Olesya Ostrah,
CAT-777 driver, Pokrovskiy mine

- We will facilitate and encourage responsible product design, use, re-use, recycling and disposal of the Company's products
- We will contribute to the social, economic and institutional development of the communities in which the Company operates
- We will implement effective and transparent engagement, communication and independently verified reporting arrangements with Group stakeholders.

Our Commitments

- We are committed to managing our operations to ensure the health, safety and security of employees, contractors and local communities, and to limit any negative impact on the surrounding environment. In planning our approach to business, we recognise that we have duties to shareholders and responsibilities to a wider group of stakeholders (those who can affect or who are affected by our activities).
- We are committed to undertaking all our operations in compliance with Russian regulatory requirements and international good practice.
- We are committed to going beyond legal compliance where necessary to protect our workers, the surrounding environment and the communities within which we operate.

Action Plan

In order to implement our Safety & Sustainability Policy, we have developed a cross-business and inter-disciplinary Action Plan focused on our priority areas of health and safety, human rights and stakeholder engagement and environmental management. Our key priorities for 2018 are set out below:

- Health & Safety.
  - An ongoing campaign to go beyond compliance and develop a safety culture within the Group based on behavioural-based safety at Group operations.

- A campaign and ongoing process to encourage safe practices related to off-site driving on public roads.

– Human Rights & Stakeholder Engagement.

- A process to ensure compliance with the UK Modern Slavery Act through implementation of risk assessments across the business to identify any potential high-risk activities with regard to modern slavery and develop plans to manage any high-risk areas identified.
- Ongoing engagement with host communities to build two-way dialogue and ensure that stakeholder comments, questions and concerns are addressed in a timely manner.

– Environment.

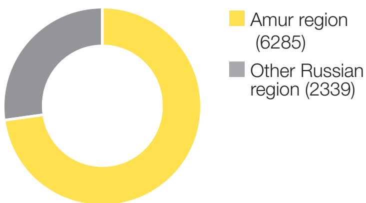
- Ongoing implementation of the International Cyanide Management Code at production sites.

Social Responsibility
Petropavlovsk recognises the socio-economic influence it has as a major employer and taxpayer in the Amur Region, where around two thirds of employees are residents. Working with local contractors, particularly on large-scale projects such as the POX Hub development, further reinforces the Company's economic impact. An additional 200 contractors were recruited to work on the project during each month of 2017. Group employment figures in the last two years have stayed consistently above 8,000 workers, excluding contractors.

Women have the opportunity to reach the highest levels of senior management. That the Group has a disproportionately high ratio of male to female employees is a reflection of historic trends in the mining sector, both in Russia and worldwide. The Board is mindful of the continuing focus on the value of gender diversity, though it has not and does not intend to set a target for the number of female Board members it has. It aims to appoint the best candidate available for any role. Alya Samokhvalova was a Board member until 30 April 2015, when she resigned following the restructuring of the Board. She remains with Petropavlovsk and in 2016 was promoted to the position of Deputy CEO, Strategic Development.

Working at Petropavlovsk

Employment Split by Region



Average wages in 2017, $

Average wage in Russia	641.5
Average wage in Amur region	613.1
Average Petropavlovsk wage	816.1
Gold mining division	760.2
Blast hole drilling division	973.9
Exploration division	920.6
Construction division	744.4
Management	1584.9
Educative division	696.3
Other service divisions and companies	679.7

Petropavlovsk is committed to operating as a responsible employer, promoting the fair treatment, non-discrimination, and equal opportunity of workers as required under both Russian and UK law. It is Petropavlovsk's duty as an employer to ensure that employees are issued with contracts detailing their working hours, paid annual leave and other guarantees, in line with Russian or UK legislation (as applicable). In Russia, the Group operates in accordance with the Constitution of the Russian Federation, which details the rights and freedoms of citizens.

At the mines, shift patterns are arranged to help employees to maintain their family commitments whilst ensuring operations can run throughout the year. These patterns are usually either 14, 30 or 45 days with subsequent leave of the same duration. Whilst on duty, employees live in comfortable, on-site, hotel style accommodation with access to leisure facilities. Competitions are held at each site and in 2017, more than 300 people took part in a variety of sports tournaments, which included employees, contractors and interns; the younger generation of the Ivanovo village also took part.

In order to facilitate a permanent productive dialogue between senior management and employees, a trade union was established at Pokrovskiy in 2003. Today, 1,629 employees are members of the trade union, and in a continuation of the Group's historical record, there were no strikes to report during 2017. The trade union budget of RUB 29 million in 2017 was allocated to health treatments for employees, financial assistance (for medical treatment and operations, the birth of a child, weddings and anniversaries), holiday camps for the children of employees, arranging sporting events and festive celebrations at the mines, and also to paying bonuses.

Petropavlovsk has developed a strong internal communications team responsible for the exchange of information between the Company and its employees. For over 10 years, the team has provided timely updates on corporate news and provided a mechanism for questions and answers via multiple channels, particularly through its Pokrovka+ newspaper. This is delivered in both digital and print formats to ensure access by employees based on site with limited computer access. Questions are often answered by relevant specialists within the newspaper itself, which is also circulated to residents of local communities.

Petropavlovsk offers competitive salaries which exceed regional and country averages. The average wage of Petropavlovsk employees in Russia is 133% higher than the Amur region average, and 127% higher than the Russian average. The Petropavlovsk minimum wage is 225% higher than the regional minimum wage. As a socially responsible employer, alongside salaries Petropavlovsk provides social benefits such as pensions, maternity and paternity leave, and employee assistance programmes. In 2017, 85 people took maternity (99%) and paternity (1%) leave. Employee assistance programmes are carried out by Petropavlovsk companies as well as by the trade union.

The Group has a zero tolerance approach to corruption and bribery and has adopted policies and procedures on preventing, combating and dealing with bribery and corruption, including a Code of Conduct and Business Ethics (the 'Code'). The Code, which has been notified to all employees both in the UK and in Russia, sets out the procedures that employees are expected to follow.

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

Petropavlovsk understands that its employees are key assets and invests in them accordingly. Some of its initiatives, highlighted below, have been especially successful:

Minimum salaries in 2017, $

Regional minimum	227.4
Petropavlovsk minimum	445.7
Gold mining division	405.9
Blast hole drilling division	485.0
Exploration division	511.0
Construction division	466.4
Management	1002.6
Educative division	305.5
Other service divisions and companies	381.9

Petropavlovsk minimum and average wages vs. regional minimum and average

Regional minimum wage	227.4
Average wage in Amur region	613.1
Average wage in Russia	641.5
Petropavlovsk minimum	445.7
Petropavlovsk average wage	816.1

Case Study: Extending the Service Life of Off-Road Tyres Brings Substantial Business Savings and Bonuses to Prudent Drivers

The proper operation of machinery is of paramount importance in the mining industry. Since 2016, Petropavlovsk drivers have had the opportunity to receive bonuses for demonstrating high professionalism and a careful attitude to equipment, by prolonging the life of the off-the-road tyres for the trucks they operate. This particular machinery affects the delivery of ore material, meaning delays can be costly, and potential efficiencies are especially valuable. Amur Machinery LLC, the official Caterpillar dealer in the Amur region, works with Petropavlovsk on this program.

The service life of the tyre depends on many factors, including how the roads are serviced, though also on the driver's approach (timely technical inspections, observing the speed regime and monitoring tyre pressure). To enable the driver to understand that pressure has exceeded the norm, trucks at Pioneer and Albyn were equipped with pressure control systems, which consist of a monitor installed in the cabin, and sensors attached to the truck tyre valves. The data for each car is recorded and entered into a web application, created by the IT department of MC Petropavlovsk. This allows the pressure dynamics to be traced, and alerts the driver of any unusual activity.

Igor Velikiy received a thank you letter and a bonus for his cautious approach:

"I tried to drive carefully, avoiding poorer quality sections of the road, and monitored the sensors."

Analysis has showed that in 2016, the service life of off-the road tyres increased by an average of 20% at Pioneer and Albyn compared to 2015.

Education

The Group understands that its employees are a key asset and invests in them accordingly, leveraging their expertise and providing continuous development. The Pokrovskiy Mining College is Petropavlovsk's main educational asset and has been successfully preparing qualified graduates for the Group for nine years. Today, the college is a constantly progressing, multi-level, innovative educational institution that implements a wide range of educational programs in-house.

The college is a private, non-profit, professional educational institution that implements educational programs in accordance with the state license:

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

There are 18 teachers at the college. Engineering and technical personnel from Petropavlovsk and other companies are involved in organising theoretical training and practical experience at the mines, in developing training documentation, and in the final certification.

For the duration of study, tuition and accommodation is free for students, and those who demonstrate outstanding results may receive a scholarship.

In 2017, 1,958 people were trained at the Pokrovskiy Mining College. The main contractor was the largest company, Pokrovskiy.

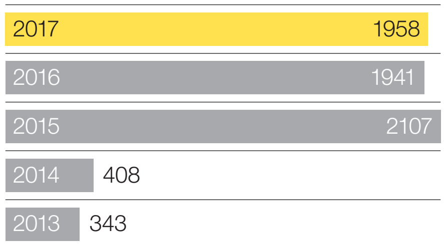
In 2017, activity at the college focused on professional training and additional education programmes, in line with new technologies and production improvements introduced. For each course, the college developed an individual syllabus based on recommendations from the Ministry of Education, adapted to Petropavlovsk operations; technical specialists and engineers took part in this process.

One example is the professional development course aimed at better preparing specialists for their work by updating and refining their knowledge of the latest Health and Safety practices. During this short course, 11 employees from around the Company studied theoretical and practical materials prepared both by teachers from the college and by representatives of state authorities. All successfully completed their exams. During their studies, students had the opportunity to meet with colleagues and discuss issues related to passing inspections, which are regularly conducted by Government authorities at Petropavlovsk operations.

Maria Silich, Deputy Chief Engineer and Head of Health and Safety at Albyn:

"The Ministry of Labour and Social Affairs of the Russian Federation recently adopted a professional standard for Health and Safety specialists. According to new requirements, employees must either have a degree in this specific area or must retrain accordingly.

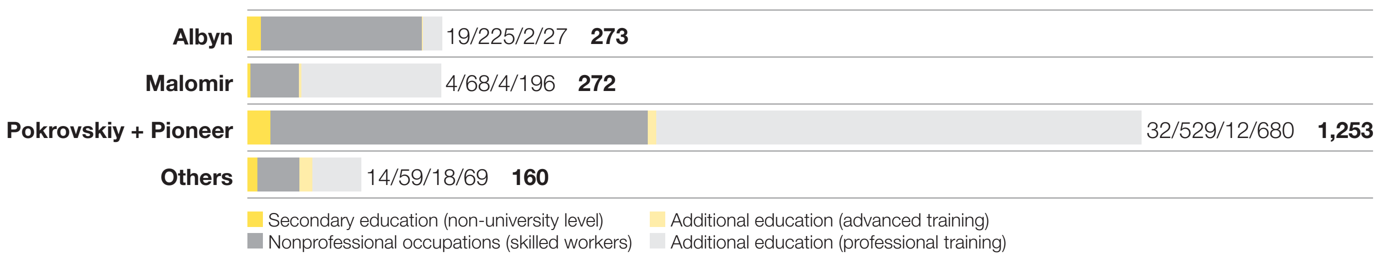
Number of PGK graduates



As such, many of my colleagues and I had to take part in an advanced training course.

Tatyana Bredikhina, Director of the Pokrovskiy Mining College, responded to my request to develop a program and organise training for the 'Safety in the Technosphere' course. We were free to communicate with representatives of the supervisory bodies and ask questions in between the main course and lectures. It was also helpful to be able to communicate with colleagues from other companies without restriction; we could ask each other questions, discuss complex topics and share our experiences throughout.

In 2018, the Pokrovskiy Mining College will become one of multiple sites used for POX personnel training, for which it has been developing programs during 2017. Based on the results of its work in 2015, 2016 and 2017, the college has been listed in the Unified National Register of 'Leading Educational Institutions of the Russian Federation".



Human Rights

Uliana Levanova
Head of Welfare and Community Liaison

"The Amur region is developing actively with new projects in various industries, from a gas processing plant to a space port! We are in competition with some of the largest Russian companies for qualified employees, and our task is to ensure that they choose us. We accomplish this by fulfilling our commitments, by supporting personal development, and most importantly, by demonstrating appreciation of our employees and their contributions."

The Petropavlovsk Safety & Sustainability Policy explicitly acknowledges that the company respects the human rights of our workers, suppliers and host communities. We seek to align our activities with the UN Guiding Principles on Business and Human Rights. In practice, this is implemented via a number of mechanisms, namely:

- modern slavery risk management within the supply chain (to meet the requirements of the Modern Slavery Act, 2015);
- engagement with host communities (including the proposed community grievance mechanism); and
- implementation of human resources policies and procedures for workers in accordance with the requirements of the Russian Federation.

The Petropavlovsk Foundation

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

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

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

Engaging with Indigenous Groups

Petropavlovsk communicates its development plans to local communities and ensures they are actively involved in the process. If issues are raised, they are addressed through public consultation. No public consultations were held in 2017. The Group continues to monitor circumstances in line with its commitment to maintaining good relationships with local communities and authorities.

There are 5 villages with predominantly Evenk populations in the Amur region. The Albyn mine is located approximately 20km from one of these, the Ivanovskoye village in the northern Seledmzhinsky district, with a population of 375 people. Petropavlovsk considers its residents to be interested parties and pays special attention to its interactions with them. The village is located in a traditional gold mining area, where alluvial gold has been mined since the 19th century, and local gold mining companies not part of the Group continue to mine alluvial gold in the vicinity of the village.

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

The long-standing goal of the Ivanovo community is the creation of an ethnocultural centre that will unite and lead work on preserving the Evenki language, traditional crafts and folklore. In 2017, Regis - a Group company, took part in exploration work to research the territory on which the main building is to be constructed.

Government Relationship

In recent years, the Government of the Russian Federation has been actively implementing a policy of development in the Russian Far East. A number of measures have been adopted to support the construction and development of modern production facilities in the region, which will create jobs and increase income from taxation.

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

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

RUB 5.49 billion of state support has been pledged, the expected amount needed to complete the project, of which RUB 4.9 billion has been received (89%).

Russian contractors including local contractors have worked on the project. The construction of the high-voltage line and the substation involved 196 people and 90 units of equipment. Most of the work has been completed at this stage, and the infrastructure facilities are planned to be completed in 2018.

Grievance Mechanism

In line with good international industry practice, a Grievance Procedure has been developed to enable members of the public and other stakeholders to raise complaints or issues concerning Petropavlovsk activities and to be assured that these complaints will receive due consideration and a written response. The Grievance Mechanism is currently being discussed with the view to it being implemented in 2018. Once in place, individuals will be able to register complaints online, by post, by phone or in person. Information on the proposed community grievance mechanism will be made available to local residents and other stakeholders. Key performance statistics on the use of the Grievance Procedure, the nature of issues raised, and the responsiveness of Petropavlovsk in resolving issues in a timely manner will be reported in future Sustainability Reports.

Health and Safety

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

Our Commitments
Occupational health and safety is the Group's key priority. The Group is committed to:

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

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

H&S Management Systems
Health and safety management should be at the core of every company and at Petropavlovsk we continuously review our approach in line with the latest regulations and best practice. Drills are conducted twice a month at all operations in accordance with plans approved by the Chief Engineer of the site.

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

Audits and Inspections
Various Government HSE auditors make regular visits to the Group's operations to conduct rigorous safety inspections and request compliance information, and their findings are documented and submitted to the HSE Committee. The Group conducts regular internal health and safety inspections, too.

Information regarding any safety violations is communicated to employees, line managers and operational management, referencing the danger posed and the relevant Russian legislation, and/or the Group's health and safety policies. Where appropriate, follow up meetings are conducted with management of the individual entities inspected.

As a last resort, the Group has the authority to fine or discipline individuals, including line managers, for any safety breaches.

Compliance with Russian Health and Safety Legislation
The Group is committed to full compliance with Russian labour legislation, of which the most significant is the Labour Code of the Russian Federation and FZ-116 'On Industrial Safety at Hazardous Production Facilities'.

In line with the Russian Labour Code, a review of labour protection in the workplace is conducted regularly. Other rules, standards and regulations include:

- state labour safety system standards;
- state sanitary-epidemiological rules and standards;
- integrated safety rules;
- rules of installation and safe operation; and
- labour protection regulations.

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

Group Health and Safety policies were updated in 2017 to improve and update existing documentation in line with business developments, particularly the commissioning of the underground project. In order to realise our strategy in a safe and responsible manner, it was clear that a major and enhanced focus on occupational health and safety was required, and as such appropriate actions were taken. Petropavlovsk ensured to keep both our employees and stakeholders constantly informed throughout the campaign, seeking feedback aimed at subsequent improvement.

Zhanna Kirienko
Group Health and Safety Coordinator

"The creation and maintenance of a safe environment in which to operate remains the cornerstone of Petropavlovsk's ethos. People are our first priority; their health, safety and welfare are our constant concern, and we work continually to improve working conditions and minimize risks. We strive to promote a health and safety culture amongst employees that ensures they return safely to their families after work. An injury-free record is our ultimate goal."

Vladimir Novikov
Health and Safety Specialist at MC Petropavlovsk (Blagoveshchensk)

"It is in everybody's interest to abide by rigorous health and safety rules and regulations and encourage those around you to follow. Across our operations, our health and safety teams strive relentlessly to raise employee awareness of the risks and hazards that may be hidden in their daily routines. We aim to achieve this by introducing new methodologies, best practices and campaigns, whilst always leading by example. Continuous training aimed at reinforcing knowledge as well as enhancing vital skills is crucial."

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

Health and Safety at the POX Hub
The POX Hub will be commissioned and will operate in line with mining industry standards, which outline specific requirements for the safe operation and training of staff in potentially hazardous production facilities. The Department of Occupational Health and Safety is currently developing technical protocols relating to the safe installation and operation of POX equipment. Prior to commissioning, all equipment will be tested to reconfirm it is safe to use. Equipment will be certified by State authorities in order to confirm its safety in line with Russian standards and regulations. Employees operating the POX Hub will be required to undergo specific training on the safe operation of all relevant equipment and will be examined in-house. In addition, senior technical staff will be State-certified.

At present, a specialised Health and Safety department is being created and all regulatory documents will be prepared for the launch of the autoclave.

Cyanide Management

As a gold producer, Petropavlovsk uses cyanide for the extraction of gold from ore. The Company has a rigorous approach to the handling, management and monitoring of cyanide due to its hazardous potential. This involves identifying all associated hazards and strictly controlling all cyanide levels in our tailings, surface and ground waters. All facilities are fully compliant with Russian regulations and environmental monitoring results are provided to the authorities on a regular basis.

The comprehensive measures currently employed by the Group to monitor and manage cyanide are outlined in the adjacent tables:

Tailings Management Facilities
All residue and waste from cyanide-based processes is disposed of at fully approved tailings management facilities, which are located in controlled access areas outside the city. The Group regularly conducts safety assessments of tailings dams at all sites, analysing their design, construction and operation. We will endeavour to continue this monitoring and control at our tailings management facilities in line with best practice, improving our methods where applicable.

The Group recognises that if its tailings dams were to fail, this could have a major impact on the local environment. The risk of a tailings dam failure is included in the Group's HSE risk management matrix. All the Group's tailings management facilities are insured, operated and monitored in accordance with legislation of the Russian Federation. Examinations and monitoring are performed on a daily basis and as a result, the risk is deemed to be low.

Implementation of the International Cyanide Management Code
Petropavlovsk has systems in place already, driven by Russian regulations. In addition and as part of the original Sustainability Plan, an independent audit by an accredited ICMC auditor was undertaken in April 2009. A range of recommendations was identified to bring the operating mines into compliance with ICMC requirements. The key recommendations were taken into consideration and the appropriate measures have been implemented with clearly assigned responsibilities.

The HSE Audit conducted by WAI in 2011 concluded that cyanide is well managed and that there was clear evidence that the improvements are being implemented at Pioneer and Pokrovskiy.

In 2018, the HSE Committee plans to review the Group's approach to cyanide management and decide if the company should undertake a compliance audit against the requirements of the ICMC, in order to develop an updated set of actions for cyanide management and to seek ICMC accreditation.

Environmental

- Special sensors monitor the presence of cyanide compounds at the Group's processing plants. If high concentrations are detected, supply and exhaust ventilation is automatically turned on
- Electronic digital bird scaring systems (Bird Gard Super Pro AMP) are installed along the perimeter of heap leach solution ponds, in order to repel waterfowl from the surface where cyanide concentration is over 50 mg/l
- The monitoring and protection of wildlife is an obligatory part of the Operational Environmental Control, carried out in accordance with the approved Environmental Monitoring Program. Monitoring data is included in the yearly report submitted to state bodies of all levels
- A detailed closure plan outlining special measures to decommission facilities is prepared three years before the actual closure. The plan provides a mechanism for ensuring the financing of these works. This project is coordinated with state bodies of the Regional and Local government and in accordance with the environmental requirements of the Russian Federation, and also undergoes a State Environmental review
- Tailings dams are designed to be water tight and are monitored on a daily basis.

Health & Safety

- Practice drills and training with the presence of medical services are carried out on a monthly basis; all employees involved in cyanide handling are regularly instructed and tested
- Personal Protective Equipment and workwear are available and must be used at all times
- Most cyanide drums are recycled
- The implementation of a cyanide destruction system is ongoing and has been partially completed
- Cyanide signage around process plants to identify pipes and tanks containing cyanide solutions is being improved
- An updated detailed response plan is available for each hazardous facility
- Cyanide and other dangerous substances are stored securely. Access is limited to fully-qualified personnel and is closely monitored by security staff; security procedures are reviewed on a monthly basis
- The handling and transportation of cyanide is carried out in line with strict security requirements and only authorised personnel are allowed to transport cyanide. All transportation is logged.

Environmental Management

Vera Usova
Head of the Environmental Safety Department

"Environmental monitoring is an integral part of our operations and our team of specialists is truly committed to what we do. The team covers all Petropavlovsk sites and monitors all stages of construction, operation, and land reclamation to ensure we protect the environment that we operate in for the benefit of our many stakeholders."

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

The Group requires licences and permits from Russian authorities for some operational activities (mining and exploration, construction, handling hazardous waste and using local water supplies), which may detail limits and conditions to help protect the environment. It must also draw up environmental impact assessments for mining project permits to be considered, in line with Russian legislation. Further, the Group is governed by laws designed to limit industrial impact on ecosystems. Land may only be cleared within the limits of licences and permits, for instance, and in designated areas it is forbidden to fish, hunt, poach or drive vehicles.

The environment is monitored throughout the life of each mine to identify any impact Group activities might have on the surrounding ecosystem. The Group has developed an appropriate environmental protection policy to support this aim and informs all relevant authorities and interested parties of its production activity and associated environmental data on a regular basis. Data is collected according to state approved schedules and samples analysed in state accredited laboratories.

In 2017, there were no regulatory non-compliance issues to report. In addition, upon the expiry of the certificates under the previous requirements of GOST R ISO 14001-2007 (ISO 14001:2004), new ones were received for all four mines to comply with GOST R ISO 14001-2016 (ISO 14001:2015).

Water Management

All Group operations hold licences with water usage quotas detailing where water may or may not be used from. Pit water is purified before it is discharged and local water is continuously monitored. The Group's RIP plants use recycled water, reducing demand from local sources.

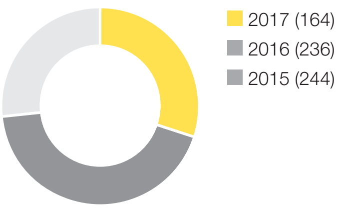
	2017	2016	2015
Water used (total), m^3	21,738,223	32,212,228	19,705,304
Water used for drinking and domestic purposes, m^3	517,488	594,419	583,481
Raw water used (technical), m^3	4,569,262	4,465,662	4,412,012
Recycled water, m^3	16,651,473	27,152,148	14,709,811
Water discharged, m^3	0	0	0

There is no water discharge as it is transferred to a third party organisation to be recycled/neutralised.

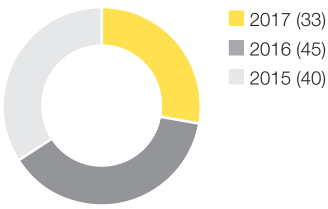
	2017	2016	2015
Recycled water	76.6%	84.3%	74.6%

Energy

Energy consumption per 1t of ore, GJ



Energy consumption per 1t of ore, kWh



Consumption of primary energy sources

		2017	2016	2015
Energy Consumption	GJ	3,122,507	3,357,161	3,810,484
Electricity	000 kW/h	598,816	588,205	607,047
Diesel	l	71,958,915	78,435,164	90,959,194
Kerosene	l	130,605	155,053	235,851
Gasoline	l	582,409	421,331	471,870
Coal	t	17,153	12,608	13,185

Waste Management

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

In 2017, 6965.9 tons of waste were generated, which is 380.3 tons more than in 2016. Growth in the volume of waste generated is caused by an increase in annual gold production and the development of the POX Hub project.

	2017	2016
Generated, t	6966	6586
Reused, t	2981	2727
Disposed	1896	1599

Air Quality

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

There were no violations in 2017, the levels of monitored indicators were comparable with those of 2016 and there were no observed changes in the chemical composition of air in impact areas.

Rehabilitation

To date, the Group has not decommissioned any mines. However, it is the Group's intention to ensure that after decommissioning, the landscape will be restored as far as possible to its original state. All operating mines are subject to an ongoing rehabilitation programme, which is compliant with regulatory requirements. Closure plans are prepared as a part of the initial permitting process and these are updated as required.

In 2017, the reclamation was completed on four Pioneer waste dumps within an area of more than four hundred hectares.

First, a mechanical stage of reclamation took place, during which heaps/piles were levelled and pine seedlings were planted on 75 hectares. The pine tree was chosen due to its local presence and high survival rate. The advantage of planting seedlings on an artificial surface such as a heap is that within ten to fifteen years, the seedlings will be guaranteed to be protected from wildfires. After reclamation is completed, the land is transferred to the Magdagachinsky Forestry, which owns it.

Rehabilitation was also carried out at the Malomir and Albyn mines. At these mines, the project includes preparation of the site for vegetation to grow naturally.

	2017	2016	2015
Land restoration, ha	3004.0	973.0	1336.0

	Pokrovskiy	Pioneer	Malomir	Albyn
Land restored in 2017, ha	492	816	434	1262

POX

Arsenic is a hazardous waste component usually present in refractory ores and concentrates in the form of arsenopyrite (FeAsS) and requires special anti-contamination measures to ensure safe disposal. Disposal of arsenic waste products is strictly regulated by both Russian and international environmental legislation. The POX process converts the majority of arsenopyrite into scorodite ($FeAsO_4 \bullet 2H_2O$), which is insoluble in water, hence it is the safest form of arsenic for disposal. In contrast, the BIOX® process produces tailings with a higher concentration of water-soluble mobile arsenic, which is more hazardous even after the additional treatment required before it can be disposed of into a tailings dam.

Key Performance Indicators

Our key performance indicators appear throughout this report and introduce the operational and sustainability sections and the CFO statement respectively (pages 33, 65 and 81).

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

2017	741
2016	660
2015	749

Definition
Total cash cost per ounce ("TCC") is the cost of producing and selling an ounce of gold from the Group's hard rock mines (Pokrovskiy, Pioneer, Malomir and Albyn). The Group's four hard rock mines are its key assets, producing 100% of the Group's total gold production.

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

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

The key components of operating cash expenses are wages, electricity, diesel, chemical reagents and consumables. The main cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate. Refinery and transportation costs are variable costs dependent on production volume. Mining tax is also a variable cost dependent on production volume and the gold price realised. The Russian statutory mining tax rate is 6%. Under the Russian Federal Law 144-FZ dated 23 May 2016 that introduced certain amendments to the Russian Tax Code, taxpayers who are participants to the Regional Investment Projects ("RIP") have the right to apply the reduced mining tax rate provided certain conditions are met. The Group's mining entities (JSC Pokrovskiy Rudnik, LLC Malomirskiy Rudnik and LLC Albynskiy Rudnik) met eligibility criteria and applied 0% mining tax rate in 2017. The Group also expects to apply 0% mining tax rate in 2018. Subsequently, the mining tax rate will increase incrementally by 1.2% every two years, reaching 6% in 2027.

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

Performance in 2017
Total Cash Costs◆ for hard rock mines increased from US$660/oz in 2016 to US$741/oz in 2017. The increase reflects primarily the effect of Rouble appreciation, inflation of certain Rouble denominated costs, lower recoveries at Pioneer, Pokrovskiy and Malomir and lower grades at Pioneer, Pokrovskiy and Albyn, which was partly compensated by a mining tax relief applied by the Group in 2017.

Going Forward
The Group expects TCC◆ for 2018 to be in the range of c.US$700-750/oz, based on the exchange rate of RUB58 : US$1.

For further information on TCC◆ please refer to the CFO Statement on pages 84to 93 of this report.

All-in Sustaining Costs◆ (US$/oz)

2017	963
2016	807
2015	874

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

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

Performance in 2017
AISC◆ increased from US$807/oz in 2016 to US$963/oz in 2017. This reflects the increase in TCC◆ as well as sustaining Capital Expenditure◆, primarily in relation to Pioneer and Malomir underground projects and the expansion of tailing dams at Pioneer and Albyn, ongoing exploration focused on near mine resource expansion, prospective stripping at Albyn and Malomir in advance of mining in 2018 and the increase in central administration expenses.

Going Forward
The Group expects AISC◆ for 2018 to be in the range of c.US$800/oz - US$850/oz, based on exchange rate of RUB 58 : US$1.

For further information on AISC◆ please refer to the CFO Statement on pages 84 to 93 of this report.

Key Performance Indicators continued

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

2017	1,262
2016	1,222
2015	1,178

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

Relevance
As gold is the key commodity produced and sold by the Group, the Average Realised Gold Sales Price◆ is a key driver behind the Group's revenues and profitability.

Performance in 2017
In 2017, the average realised gold price was US$1,262/oz, a 3% increase from US$1,222/oz in 2016 and above the average LBMA gold price afternoon fixing of US$1,257/oz. The average realised gold price for 2017 includes a US$2/oz effect from hedge arrangements (2016: US$(21)/oz).

Going Forward
The Group generates most of its revenue from the sale of gold. The Group's policy is to sell its products at the prevailing market price. The Group constantly monitors the gold price and hedges some portion of production as considered necessary. Forward contracts to sell an aggregate of 400koz of gold at an average price of US$1,252/oz were outstanding as at 31 December 2017. Forward contracts to sell an aggregate of 350koz of gold at an average price of US$1,252/oz are outstanding as at 27 March 2018.

For further details on the components of Group revenue, cash flow and hedge arrangements please refer to the CFO Statement on pages 84 to 93 of this report

Net Debt◆ (US$m)

(585)	2017
(599)	2016
(610)	2015

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

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

Performance in 2017
Net Debt◆ reduced to US$585 million as at 31 December 2017 from US$599 million as at 31 December 2016.

Going Forward
The Group's Net Debt◆ is expected to be in the range of c.US$560-585 million by the end of 2018, assuming an average market gold price of US$1,275/oz for the remainder of 2018.

For further information on Net Debt◆ please refer to the CFO Statement on pages 84 to 93 of this report.

Underlying EBITDA◆ (US$m)

2017	197
2016	200
2015	173

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

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

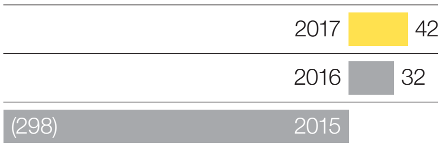
Performance in 2017
In 2017, the Group generated Underlying EBITDA◆ of US$196.8 million, compared with US$200.1 million in 2016.

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

For further information on Underlying EBITDA◆ please refer to the CFO Statement on pages 84 to 95 of this report.

◆ Go to pages 197 to 203 for more information on our APMs.

Profit/(Loss) For The Period (US$m)



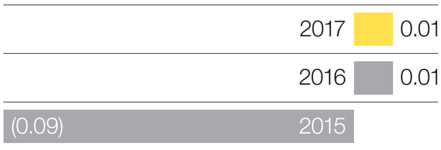
Definition
Profit / (loss) for the period is calculated by deducting operating and net finance expenses, taxation and any relevant share of results of associates and joint ventures for the applicable years from total revenue.

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

Performance in 2017
Profit for the period amounted to US$41.5 million in 2017, compared to a profit of US$31.7 million in 2016. While Underlying EBITDA◆ remained at approximately the same level as in 2016, the Group’s profit for the period was positively affected by a US$35.2 million share of profit in associates that included partial reversal of previously recognised impairment losses at K&S, as recorded by the Group’s associate IRC (2016: a loss of results of associates of US$3.6 million). This was partially offset by US$29.2m of deferred taxation (including a foreign exchange effect on deferred tax due to appreciation of the Rouble against the US Dollar).

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

Basic Earnings/(Loss) Per Share (US$)



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

Relevance
Basic EPS is an indicator of the Group’s profitability and the value per Ordinary Share. The total number of Ordinary Shares in issue as at 31 December 2017 was 3,303,768,532 (31 December 2016: 3,303,768,532).

Performance in 2017
Basic profit per share for 2017 was US$0.01, approximately as per 2016.

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

For the calculation of basic EPS please refer to the note 11 of the Consolidated Financial Statements on page 172 of this report.

◆ Go to pages 197 to 203 for more information on our APMs.

Chief Financial Officer's Statement

For the year ended 31 December 2017

Andrey Maruta

Note: Figures may not add up due to rounding

Financial Highlights

		2017	2016
Gold produced	'000oz	439.6	400.2
Gold sold	'000oz	439.8	399.9
Group revenue	US$ million	587.4	540.7
Average realised gold price◆	US$/oz	1,262	1,222
Average LBMA gold price afternoon fixing	US$/oz	1,257	1,250
Total cash costs◆ [a]	US$/oz	741	660
All-in Sustaining Costs◆ [b]	US$/oz	963	807
All-in costs◆ [b]	US$/oz	1,065	838
Underlying EBITDA◆	US$ million	196.8	200.1
Operating profit	US$ million	111.9	77.0
Profit before tax	US$ million	60.5	27.0
Profit for the period	US$ million	41.5	31.7
Profit for the period attributable to equity shareholders of Petropavlovsk PLC	US$ million	42.4	33.7
Basic profit per share	US$	0.01	0.01
Net cash from operating activities	US$ million	124.0	37.0

(a) Calculation of Total Cash Costs◆ ("TCC") is set out in the section Hard rock mines below.

(b) All-in Sustaining Costs◆ ("AISC") and All-in Costs◆ ("AIC") are calculated in accordance with guidelines for reporting All-in Sustaining Costs◆ and All-in Costs◆ published by the World Gold Council. Calculation is set out in the section All-in Sustaining Costs◆ and All-in Costs◆ below.

	31 December 2017 US$ million	31 December 2016 US$ million
Cash and cash equivalents	11.4	12.6
Loans [c]	(7.1)	(522.8)
Notes [d]	(497.7)	–
Convertible bonds [e]	(91.6)	(88.4)
Net Debt◆	(585.1)	(598.6)

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

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

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

Revenue

	2017 US$ million	2016 US$ million
Revenue from hard rock mines	556.2	490.0
Revenue from other operations	31.2	50.7
	587.4	540.7

◆ Go to pages 197 to 203 for more information on our APMs.

Group revenue during the period was US$587.4 million, 9% higher than the US$540.7 million achieved in 2016.

Revenue from hard rock mines was US$556.2 million, 14% higher than the US$490.0 million achieved in 2016. Gold remains the key commodity produced and sold by the Group, comprising 95% of total revenue generated in 2017. The physical volume of gold sold from hard rock mines increased by 10% from 399,858oz in 2016 to 439,834oz in 2017. The average realised gold price◆ increased by 3% from US$1,222/oz in 2016 to US$1,262/oz in 2017. The average realised gold price◆ includes a US$2/oz effect from hedge arrangements (2016: US$(21)/oz).

Hard rock mines sold 65,503oz of silver in 2017 at an average price of US$17/oz, compared to 98,231oz in 2016 at an average price of US$16/oz.

Revenue generated as a result of third-party work by the Group's in-house service companies was US$31.2 million in 2017, a US$19.5 million decrease compared to US$50.7 million in 2016. 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$29.0 million in 2017 compared to US$44.8 million in 2016.

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 212,501oz of gold matured during 2017 and contributed US$0.8 million to cash revenue (2016: US$(8.5) million net cash settlement paid by the Group from forward contracts to sell an aggregate of 134,545oz of gold).

The Group constantly monitors the gold price and hedges some portion of production as considered appropriate. Forward contracts to sell an aggregate of 400koz of gold at an average price of US$1,252/oz were outstanding as at 31 December 2017. Forward contracts to sell an aggregate of 350koz of gold at an average price of US$1,252/oz are outstanding as at 27 March 2018.

Underlying EBITDA◆ and analysis of operating costs

	2017 US$ million	2016 US$ million
Profit for the period	41.5	31.7
Add/(less):		
Investment income	(0.8)	(0.6)
Interest expense	25.9	61.0
Other finance gains	(2.2)	(11.9)
Other finance losses	28.5	1.5
Foreign exchange losses	0.7	5.2
Accrual for additional mining tax [(a)]	19.9	–
Taxation	19.1	(4.7)
Depreciation	93.2	105.3
Impairment of exploration and evaluation assets	–	9.2
(Reversal of impairment)/ impairment of ore stockpiles	(4.7)	1.2
Impairment of gold in circuit	3.9	–
Impairment of non-trading loans	0.6	–
Share of results of associates [(b)]	(28.7)	2.4
Underlying EBITDA◆	196.8	200.1

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

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

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

	2017 US$ million	2016 US$ million
Pioneer	75.5	79.2
Pokrovskiy	0.8	13.2
Malomir	22.1	22.0
Albyn	130.7	110.4
Total Hard rock mines	229.1	224.7
Corporate and other	(32.3)	(24.6)
Underlying EBITDA◆	196.8	200.1

◆ Go to pages 197 to 203 for more information on our APMs.

Hard rock mines
During this period, hard rock mines generated Underlying EBITDA◆ of US$229.1 million compared to US$224.7 million Underlying EBITDA◆ in 2016.

Total Cash Costs◆ for hard rock mines increased from US$660/oz in 2016 to US$741/oz in 2017. The increase in TCC◆ primarily reflects the effect of Rouble appreciation, inflation of certain Rouble denominated costs, lower recoveries at Pioneer, Pokrovskiy and Malomir and lower grades at Pioneer, Pokrovskiy and Albyn, which was partly compensated by a mining tax relief applied by the Group in 2017. The increase in the average realised gold price◆ from US$1,222/oz in 2016 to US$1,262/oz in 2017 and the increase in physical ounces sold had a US$40.3 million positive contribution to Underlying EBITDA◆ in 2017. This effect was offset by the increase in Total Cash Costs◆, which had a US$35.9 million impact on the Underlying EBITDA◆.

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

Compared with 2016 there was ongoing inflation of certain Rouble denominated costs, in particular, electricity costs increased by up to 14% in Rouble terms (increased by up to 31% in US Dollar terms) and the cost of diesel increased by up to 11% in Rouble terms (increased by up to 28% in US Dollar terms). A 13% strengthening of the Rouble against the US Dollar has occurred during 2017 compared to 2016, with the average exchange rate for the period going from 67.18 Roubles per US Dollar in 2016 to 58.32 Roubles per US Dollar in 2017.

Refinery and transportation costs are variable costs dependent on production volume. Mining tax is also a variable cost dependent on production volume and the gold price realised. The Russian statutory mining tax rate is 6%. Under the Russian Federal Law 144-FZ dated 23 May 2016 that introduced certain amendments to the Russian Tax Code, taxpayers who are participants to the Regional Investment Projects ("RIP") have the right to apply the reduced mining tax rate provided certain conditions are met.
The Group's mining entities (JSC Pokrovskiy Rudnik, LLC Malomirskiy Rudnik and LLC Albynskiy Rudnik) met eligibility criteria and applied 0% mining tax rate in 2017. The Group also expects to apply 0% mining tax rate in 2018. Subsequently, the mining tax rate will increase incrementally by 1.2% every two years, reaching 6% in 2027.

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

	2017		2016	
	US$ million	%	US$ million	%
Staff cost	72.1	23	54.7	21
Materials	107.1	34	97.4	37
Fuel	43.8	14	40.3	15
Electricity	30.1	10	23.3	9
Other external services	36.2	12	22.1	8
Other operating expenses	24.1	7	28.2	10
	313.4	100	266.0	100
Movement in ore stockpiles, gold in circuit and bullion in process attributable to gold production (a)	(19.2)		(40.5)	
Total operating cash expenses	294.2		225.6	

(a) Excluding deferred stripping

◆ Go to pages 197 to 203 for more information on our APMs.

	Hard rock mines				2017	2016
	Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	Total US$ million	Total US$ million
Revenue						
Gold	202.4	40.7	83.1	228.9	555.1	488.5
Silver	0.7	0.1	0.0	0.2	1.1	1.5
	203.1	40.8	83.1	229.1	556.2	490.0
Expenses						
Operating cash expenses	125.5	39.6	55.7	73.4	294.2	225.6
Refinery and transportation	0.3	0.1	0.1	0.3	0.8	0.7
Other taxes	1.9	0.4	1.7	2.0	5.9	6.3
Mining tax	–	–	–	–	–	14.7
Accrual of additional mining tax [(a)]	6.5	2.3	2.8	8.3	19.9	–
Deferred stripping costs	–	–	3.6	22.6	26.2	18.0
Depreciation	28.9	7.1	12.6	44.3	93.0	104.7
Impairment of exploration and evaluation assets	–	–	–	–	–	9.2
(Reversal of impairment)/Impairment of ore stockpiles	(3.6)	0.2	0.3	(1.6)	(4.7)	1.2
Impairment of gold in circuit	2.6	0.7	0.6	–	3.9	–
Operating expenses	162.1	50.3	77.3	149.4	439.1	380.3
Result of precious metals operations	41.0	(9.5)	5.8	79.7	117.1	109.7
Add/(less):						
Accrual of additional mining tax [(a)]	6.5	2.3	2.8	8.3	19.9	–
Depreciation	28.9	7.1	12.6	44.3	93.0	104.7
Impairment of exploration and evaluation assets	–	–	–	–	–	9.2
(Reversal of impairment)/Impairment of ore stockpiles	(3.6)	0.2	0.3	(1.6)	(4.7)	1.2
Impairment of gold in circuit	2.6	0.7	0.6	–	3.9	–
Segment EBITDA◆	75.5	0.8	22.1	130.7	229.1	224.7
Physical volume of gold sold, oz	160,421	32,250	65,678	181,485	439,834	399,858
Cash costs						
Operating cash expenses	125.5	39.6	55.7	73.4	294.2	225.6
Refinery and transportation	0.3	0.1	0.1	0.3	0.8	0.7
Other taxes	1.9	0.4	1.7	2.0	5.9	6.3
Mining tax	–	–	–	–	–	14.7
Deferred stripping costs	–	–	3.6	22.6	26.2	18.0
Operating cash costs	127.7	40.0	61.1	98.4	327.1	265.3
Deduct: co-product revenue	(0.7)	(0.1)	(0.0)	(0.2)	(1.1)	(1.5)
Total Cash Costs◆	126.9	39.9	61.0	98.2	326.0	263.7
TCC◆/oz, US$/oz	791	1,236	929	541	741	660

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

◆ Go to pages 197 to 203 for more information on our APMs.

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

AISC◆ increased from US$807/oz in 2016 to US$963/oz in 2017. The increase in AISC◆ reflects the sustaining Capital Expenditure◆, primarily in relation to Pioneer and Malomir underground projects and expansion of tailing dams at Pioneer and Albyn, ongoing exploration focused on near mine resource expansion, prospective stripping at Albyn and Malomir in advance of the mining in 2018 and the increase in central administration expenses.

AIC◆ increased from US$838/oz in 2016 to US$1,065/oz in 2017, primarily reflecting the increase in AISC◆ explained above and Capital Expenditure◆ in relation to the POX project.

	Hard rock mines				2017	2016
	Pioneer US$ million	Pokrovskiy US$ million	Malomir US$ million	Albyn US$ million	Total US$ million	Total US$ million
Physical volume of gold sold, oz	160,421	32,250	65,678	181,485	439,834	399,858
Total Cash Costs◆	126.9	39.9	61.0	98.2	326.0	263.7
TCC◆, US$/oz	791	1,236	929	541	741	660
(Reversal of impairment)/ Impairment of ore stockpiles	(1.3)	0.2	0.3	(1.6)	(2.5)	7.2
Impairment of gold in circuit	2.6	0.7	0.6	–	3.9	–
Adjusted operating costs	128.2	40.8	61.9	96.6	327.4	270.9
Central administration expenses	14.6	2.9	6.0	16.5	39.9	32.6
Capitalised stripping at end of the period	0.9	–	10.6	28.2	39.8	26.2
Capitalised stripping at beginning of the period	–	–	(3.6)	(22.6)	(26.2)	(18.0)
Close down and site restoration	0.1	0.2	0.3	0.9	1.5	0.2
Sustaining exploration expenditures	6.0	0.0	3.8	6.3	16.1	–
Sustaining Capital Expenditure◆	15.4	0.2	4.9	4.5	24.9	10.9
All-in Sustaining Costs◆	165.1	44.1	83.9	130.4	423.5	322.8
All-in Sustaining Costs◆, US$/oz	1,029	1,367	1,278	718	963	807
Exploration expenditure◆	5.6	–	0.0	0.1	5.8	16.6
Capital Expenditure◆	18.2	–	23.0	–	41.2	1.9
Reversal of impairment of ore stockpiles [a]	(2.2)	–	–	–	(2.2)	(6.0)
All-in costs◆	186.7	44.1	107.0	130.5	468.3	335.3
All-in costs◆, US$/oz	1,164	1,367	1,628	719	1,065	838

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

◆ Go to pages 197 to 203 for more information on our APMs.

Corporate and other

Corporate and other operations contributed US$(32.3) million to Underlying EBITDA◆ in 2017 compared to US$(24.6) million in 2016. Corporate and other operations primarily include central administration function, result of in-house service companies and the Group's share of results of its associate IRC.

The Group has corporate offices in London, Moscow and Blagoveschensk, which together represent the central administration function. Central administration expenses increased by US$7.3 million from US$32.6 million in 2016 to US$39.9 million in 2017. The increase in central administration expenses is primarily attributed to a US$6.5 million increase in staff costs, mainly as a result of the payments and accruals key management bonuses, an increase in Russian staff costs due to the appreciation of RUB against US Dollar and general increase in Russian salaries to align with the market.

The Group's share of profit generated by IRC is US$35.2 million (2016: US$(3.6) million share of losses generated by IRC), including US$40.3 million effect from partial reversal of impairment at K&S mine. IRC contributed US$6.5 million to the Group's Underlying EBITDA◆ in 2017.

Impairment review

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and supporting in-house service companies and concluded no impairment was required as at 31 December 2017. As at 31 December 2017, all exploration and evaluation assets on the balance sheet related to the areas adjacent to the existing mines.

The forecast future cash flows are based on the Group's current mining plan that assumes POX Hub completion in the year 2018. The other key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out below:

	2017	2016
Long term gold price	US$1,300/oz	US$1,200/oz
Discount rate [(a)]	8%	8%
RUB : US$ exchange rate	RUB60 : US$1	RUB60 : US$1

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 11.6% (2016: 10.1%)

Interest income and expense

	2017 US$ million	2016 US$ million
Investment income	0.8	0.6

The Group earned US$0.8 million interest income on its cash deposits with banks.

	2017 US$ million	2016 US$ million
Interest expense	60.2	60.8
Interest capitalised	(34.6)	
Other	0.3	0.2
	25.9	61.0

Interest expense for the period was comprised of US$5.3 million effective interest on the Notes , US$12.2 million effective interest on the Convertible Bonds and US$42.7 million interest on bank facilities (2016: US$11.9 million and US$48.9 million, respectively).

As the Group resumed active construction of the POX Hub and flotation at Malomir and proceeded with underground development at Pioneer and Malomir, these projects met eligibility criteria for borrowing costs capitalization under IAS 23 "Borrowing Costs". US$34.6 million of interest expense was capitalised within property, plant and equipment in 2017, accordingly.

◆ Go to pages 197 to 203 for more information on our APMs.

Other finance gains and losses

Other finance gains for the period comprised US$2.2 million compared to US$11.9 million in 2016. Included in other finance gains is a financial guarantee fee of US$2.2 million (2016: US$4.5 million) charged in connection with the ICBC facility.

Other finance losses for the period comprised US$28.5 million compared to US$1.5 million in 2016. Included in other finance losses are US$6.9 million (2016: US$nil) fair value losses on the revaluation of the embedded option for the bondholders to convert into the equity of the Company and a US$21.6 million (2016: US$1.5 million) loss on bank debt refinancing.

Taxation

	2017 US$ million	2016 US$ million
Tax charge/(credit)	19.1	(4.7)

The Group is subject to corporation tax under the UK, Russia and Cyprus tax legislation. The statutory tax rate for 2017 was 19.25% in the UK and 20% in Russia. Under the Russian Federal Law 144-FZ dated 23 May 2016 taxpayers who are participants to the Regional Investment Projects ("RIP") have the right to apply the reduced corporation tax rate if certain conditions are met. In 2017, LLC Albynskiy Rudnik has received tax relief as a RIP participant and is entitled to the reduced statutory corporation tax rate of 17% for the period of 10 years, subject to eligibility criteria.

The tax charge for the period arises primarily in relation to the Group's gold mining operations and is represented by a current tax charge of US$24.4 million (2016: US$29.8 million) and a deferred tax credit, which is a non-cash item, of US$5.3 million (2016: deferred tax credit of US$34.5 million). Included in the deferred tax credit in 2017 is a US$7.5 million credit (2016: US$26.0 million credit) foreign exchange effect which primarily arises because the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Roubles, whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value.

During the period, the Group made corporation tax payments in aggregate of US$31.1 million in Russia (2016: corporation tax payments in aggregate of US$35.3 million in Russia).

Earnings per share

	2017	2016
Profit for the period attributable to equity holders of Petropavlovsk PLC	US$42.4 million	US$33.7 million
Weighted average number of Ordinary Shares	3,303,768,532	3,302,148,536
Basic profit per ordinary share	US$0.01	US$0.01

Basic profit per share for 2017 was US$0.01, which is approximately at the same level as in 2016. The total number of Ordinary Shares in issue as at 31 December 2017 was 3,303,768,532 (31 December 2016: 3,303,768,532).

Financial position and cash flows

	31 December 2017 US$ million	31 December 2016 US$ million
Cash and cash equivalents	11.4	12.6
Bank loans [(a)]	(7.1)	(522.8)
Notes [(b)]	(497.7)	–
Convertible bonds [(c)]	(91.6)	(88.4)
Net Debt◆	(585.1)	(598.6)

(a) US$4 million principal under Sberbank facility at amortised cost.
(b) US$500 million Guaranteed Notes due on 14 November 2022 at amortised cost.
(c) US$100 million convertible bonds due on 18 March 2020 at amortised cost.

	2017 US$ million	2016 US$ million
Net cash from operating activities	124.0	37.0
Net cash used in investing activities	(87.0) [(d)]	(8.7)
Net cash used in financing activities	(38.6)	(46.8)

(d) Including US$88.1 million cash CAPEX◆.

Issue of US$500 million Notes

In November 2017, the Group issued US$500 million Guaranteed Notes due for repayment on 14 November 2022. The Notes were issued by the Group's wholly owned subsidiary Petropavlovsk 2016 Limited and are guaranteed by the Company and its subsidiaries JSC Pokrovskiy Rudnik, LLC Albynskiy Rudnik and LLC Malomirskiy Rudnik. The Notes have been admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange on 14 November 2017. The Notes carry a coupon of 8.125% payable semi-annually in arrears. Net proceeds from the issue of the Notes were used to refinance substantially all of the loans provided pursuant to the banking facilities by Sberbank and VTB Bank.

Key movements in cash and Net Debt◆

	Cash US$ million	Debt US$ million	Net Debt◆ US$ million
As at 1 January 2017	12.6	(611.2)	(598.6)
Net cash generated by operating activities before working capital changes	156.8	–	
Decrease in working capital	47.5	–	
Income tax paid	(31.1)	–	
Capital Expenditure◆	(66.2)	–	
Exploration expenditure	(21.9)	–	
Issue of Notes, net of transaction cost	495.0	(492.4)	
Amounts repaid under bank loans	(525.8)	525.8	
Interest accrued	–	(60.2)	
Interest paid	(49.2)	49.2	
Transaction costs in connection with bank loans	(9.0)	13.9	
Bank debt refinancing	–	(21.6)	
Other	2.7	–	
As at 31 December 2017	11.4	(596.5)	(585.1)

As at 31 December 2017, there were no undrawn facilities available to the Group.

◆ Go to pages 197 to 203 for more information on our APMs.

Capital Expenditure◆

The Group invested an aggregate of US$88.1 million in 2017 compared to US$29.4 million in 2016. The key areas of focus this year were on the POX project, for which active development was recommenced ahead of scheduled commissioning in 2018, exploration and development to support the underground mining at Pioneer and Malomir, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations.

Following the recommencement of active development of the POX project and the development of Pioneer and Malomir underground mining operations, the Group capitalised US$34.6 million of interest expense incurred in relation to the Group's debt into the cost of the aforementioned assets.

	Exploration expenditure US$ million	Development expenditure and other CAPEX◆ US$ million	Total CAPEX◆ US$ million
POX [a]	-	33.2	33.2
Pokrovskiy and Pioneer [b]	11.6	14.6	26.2
Malomir [c,d]	3.8	12.7	16.5
Albyn	6.4	3.6	10.1
Upgrade of in-house service companies	-	2.2	2.2
	21.9	66.2	88.1

(a) Including US$33.2 million of development expenditure in relation to the POX Hub which is considered to be non-sustaining Capital Expenditure◆ for the purposes of calculating All-in Sustaining Costs◆ and All-in Costs◆.

(b) Including US$12.0 million of expenditure in relation to the underground mining project at Pioneer to be sustaining Capital Expenditure◆ for the purposes of calculating the All-in Sustaining Costs◆ and All-in Costs◆.

(c) Including US$3.5 million of expenditure in relation to the underground mining project at Malomir to be sustaining Capital Expenditure◆ for the purposes of calculating the All-in Sustaining Costs◆ and All-in Costs◆.

(d) Including US$8.1 million of expenditure in relation to Malomir flotation (including tailing dams), which is considered to be non-sustaining Capital Expenditure◆ for the purposes of calculating 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 the translation of monetary assets and liabilities denominated in foreign currencies, which for the principal subsidiaries of the Group are the Russian Rouble and GB Pounds Sterling.

The following exchange rates to the US Dollar have been applied to translate monetary assets and liabilities denominated in foreign currencies.

	31 December 2017	31 December 2016
GB Pounds Sterling (GBP: US$)	0.74	0.81
Russian Rouble (RUB : US$)	57.60	60.66

The Rouble recovered by 5% against the US Dollar during 2017, from RUB60.66: US$1 as at 31 December 2016 to RUB57.60: US$1 as at 31 December 2017. The average year-on-year appreciation of the Rouble against the US Dollar was approximately 13%, with the average exchange rate for 2017 being RUB58.32: US$1 compared to RUB67.18: US$1 for 2016. The Group recognised foreign exchange losses of US$0.7 million in 2017 (2016: US$5.2 million) arising primarily on Rouble denominated net monetary assets.

◆ Go to pages 197 to 203 for more information on our APMs.

Going concern

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

The Group performed an assessment of the forecast cash flows for the period of 12 months from the date of approval of the 2017 Annual Report and Accounts. As at 31 December 2017, the Group had sufficient liquidity headroom. Following the successful issue of the US$500 million Guaranteed Notes (note 20), the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to April 2019. In the meantime, the Group's projections under a layered stressed case that is based on the gold price, which is 10% lower than the average of the market consensus forecasts, indicate that unless mitigating actions can be taken, there will be insufficient liquidity under a layered stressed case for the relevant period to April 2019. These mitigating actions include items within the control of the management, such as accessing deposits not currently in the Group's mining plan, cost cutting and reduction of exploration expenditure.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$234 million as at 31 December 2017. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. In 2017, IRC has agreed with ICBC to reschedule repayments under the ICBC Facility Agreement and obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive). The next repayment instalment under the ICBC Facility Agreement is now due on 20 June 2018 and semi-annually thereafter until June 2022. IRC projections demonstrate that although IRC expects to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule and non-compliance with certain financial covenants for the relevant period to April 2019. Management of Company and IRC has approached ICBC to request an amendment of the repayment schedule and obtain waivers in respect of obligations to comply with certain financial covenants. Management is also in active discussions regarding the full refinancing of the ICBC facility with an alternative lender. However, if ICBC refinancing is not completed, IRC's financial liquidity may be adversely impacted. IRC and/or the Company would then need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt and/or equity financing.

If a missed repayment under debt or guarantee obligations occurs or financial covenant requirements are not met, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

The risk that ICBC refinancing is not completed or alternative contingency plans are not realised represents a material uncertainty which may cast significant doubt upon the Group's ability to continue to apply the going concern basis of accounting.

Nevertheless, having taken into account the aforementioned factors, and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2017 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing consolidated financial statements.

2018 Outlook

The Group is currently aiming to achieve 2018 production guidance in the range of 420 – 460 koz. The Group's operating cash expenses are substantially Rouble denominated. The Group expects its TCC◆ in 2018 to be in the range of c.US$700-750/oz at current exchange rates.

The Strategic Report was approved by the Board on 27 March 2018 and signed on its behalf by:

Ian Ashby
Independent Non-Executive Chairman

◆ Go to pages 197 to 203 for more information on our APMs.

Board of Directors

Chairman

Mr Ian Ashby
Independent Non-Executive Chairman

Appointed on 22 June 2017

Experience
Mr Ashby has 36 years of international experience in the minerals industry across a range of commodities that include copper, iron ore, coal, silver, gold, lead and zinc. In his most recent executive role between 2006 and 2012, Mr Ashby was President of BHP Billiton's Iron Ore division, the largest and most profitable business within BHP Billiton, where he was responsible for global strategy development and execution, opportunity identification, project development and operations. Post his executive career, Mr Ashby has pursued Non-Executive Director roles at Genco Shipping and New World Resources.

Mr Ashby holds a Bachelor of Engineering in Mining from the University of Melbourne.

External Appointments
Mr Ashby currently holds NED positions on the boards of Anglo-American PLC, Nevsun Resources and Alderon Iron Ore Corporation.

Committee membership
Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees.

Executive Directors

Mr Sergey Ermolenko
Interim Chief Executive Officer

Appointed on 18 July 2017

Mr Ermolenko, who is also the General Director of Management Company Petropavlovsk, was CEO of Petropavlovsk PLC from December 2011 to November 2014.

Mr Ermolenko is one of the original members of the Group's founding management team.

Experience
Mr Ermolenko has held top managerial positions with the Group since its inception in 1994 and he has been instrumental in the expansion of the Group into a multi-mine operation, overseeing the commissioning of Pokrovskiy, Pioneer, Malomir and Albyn.

He was appointed General Director of Management Company Petropavlovsk in 2004. In this capacity, he led the expansion of the Group into a multi mine operator. Mr Ermolenko is Chairman of the Executive Committee and the Group's Operations Committee.

External Appointments
None.

Committee membership
Member of the HSE Committee

From 16 April 2018
Mr Ermolenko will revert to his former role as General Director of MC Petropavlovsk following the appointment of Mr Deniskin as Chief Executive Officer.

Mr Andrey Maruta
Chief Financial Officer

Appointed on 2 January 2011

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

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.

External Appointments
None.

Committee membership
None.

Non-Executive Directors

Mr Bruce M. Buck
Senior Independent Non-Executive Director

Appointed on 22 June 2017

Experience
Mr Buck has been practicing law in Europe since 1983. His work at the law firm of Skadden, Arps, Slate, Meagher and Flom, where he was a partner and latterly Of Counsel retiring from this role in July 2017, included a broad range of mergers, acquisitions and capital markets transactions, including IPOs and high-yield transactions. Mr Buck has been involved in work in Central and Eastern Europe, and particularly in the Russian Federation, since 1990.

External Appointments
Mr Buck is the Chairman and a Director of Chelsea FC plc and he also holds a Non-Executive Director position on the Board of AIM-listed Globalworth Real Estate Investments Limited.

Committee membership
Chairman of the Remuneration Committee and a member of the Audit and HSE Committees.

Mr Adrian Coates, Independent Non-Executive Director

Appointed on 16 February 2018

Experience
Mr Coates has many years' experience in the investment banking industry, having held senior positions with HSBC Bank plc and UBS Investment Bank amongst others, latterly with a specialisation in the natural resources sector. Since then, Mr Coates has held Non-Executive positions at both Polyus Gold International Limited, Kazakhgold Group Limited and Regal Petroleum plc. He has also worked as a strategic consultant to prominent clients in the metals and mining industry

Mr Coates holds MA degrees in Economics from Fitzwilliam College of Cambridge University and a MBA from London Business School.

External Appointments
Mr Coates holds Non-Executive positions at JKX Oil and Gas plc, where he is Senior Independent Director and Chairman of the Audit Committee, and at Thor Explorations Ltd, where he is Non-Executive Director and Chairman of the Audit Committee.

Committee membership
None.

Mr Bektas Mukazhanov Non-Executive Director

Appointed on 8 February 2018

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

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

External Appointments
Mr Mukazhanov is an employee at Fincraft Holdings Ltd, the major shareholder of Petropavlovsk PLC.

Committee membership
None.

Mr Garrett Soden Independent Non-Executive Director

Appointed on 22 June 2017

Experience
Mr Soden has extensive experience as a senior executive and board member of various public companies in the natural resources sector. He has worked with the Lundin Group for the last decade. Previously, he was Chairman and CEO of RusForest AB, CFO of Etrion and PetroFalcon Corporation and a Non-Executive Director of PA Resources AB. Prior to joining the Lundin Group, Mr. Soden worked at Lehman Brothers in equity research and at Salomon Brothers in mergers and acquisitions. He also previously served as Senior Policy Advisor to the U.S. Secretary of Energy.

Mr Soden holds a BSc honours degree from the London School of Economics and an MBA from Columbia Business School.

External Appointments
Mr Soden is currently President and CEO of Africa Energy Corp., a Canadian oil and gas exploration company focused on Africa. He is also a Non-Executive Director of Etrion Corporation, Gulf Keystone Petroleum Ltd., Panoro Energy ASA and Phoenix Global Resources PLC.

Committee membership
Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Incoming Chief Executive Officer

Mr Roman Deniskin

Appointment effective from 16 April 2018

Experience
Mr Deniskin has extensive experience at strategic and senior operating levels within mining and industrial companies. Whilst his focus in mining was on iron ore, coal and gold in Russia and CIS, it also included successful gold sector expansion in Africa. During his diverse career, Mr Deniskin spent significant time working at global management consulting firms McKinsey & Company and Boston Consulting Group, focused primarily on metals and mining. In his most recent role, he served as Deputy Chairman of Eurasian Resources Group, a leading diversified mining and smelting group based in Kazakhstan. Prior to this, Mr Deniskin held senior positions at Rostec, MMK and Severstal Resources.

Mr Deniskin holds degrees in mechanics and economics.

From 16 April 2018
Mr Deniskin will be appointed as Chief Executive Officer on 16 April 2018. He will have no external appointments at the date of his appointment.

Governance Report

Chairman's introduction

Dear Shareholder

The 2017 year to date has been a considerable period of change for the Petropavlovsk Board.

I and two of my fellow Directors, Bruce Buck and Garrett Soden were proposed for appointment, by certain shareholders, as Independent Non-Executive Directors at the Annual General Meeting held on 22 June 2017 (the '2017 AGM'), following which I was appointed by the Board to act as its Chairman.

At the same meeting, Vladislav Egorov, who resigned as a Director on 1 January 2018, was proposed by the Company's former major shareholder, for appointment as a Director. In addition, during 2018 I have welcomed both Adrian Coates as an Independent Non-Executive Director and Bektas Mukazhanov as a Director to the Board and announced the appointment of Roman Deniskin as Chief Executive Officer effective from 16 April 2018.

Adrian was appointed as an additional Independent Non-Executive Director on 16 February 2018 to further strengthen the Board, whilst Bektas was appointed as Non-Independent Non-Executive Director on 8 February 2018. Details of all Board changes during 2017 and 2018 to-date are provided in this report, including information on those Directors who departed the Board during the year. The Board's composition is fully compliant with the UK Corporate Governance Code and has been throughout 2017 to date.

Since my appointment as Chairman I have met with many shareholders, principally during the 2017 interim results investor roadshow and immediately prior to the launch of the Group's US$500m 8.125% Guaranteed Notes due 2022 (the "Notes") in November 2017. I, and the Board, welcome dialogue with all of the Company's shareholders and we are mindful of our obligation to maintain a dialogue with shareholders based on a mutual understanding of objectives.

Whilst the appointment of myself, Bruce, Garrett and Vladislav at the 2017 AGM was proposed by shareholders having a substantial interest in the Company's issued share capital, the Board recognises that not all shareholders were supportive of our appointment. I hope that their concerns have been addressed by the aforementioned meetings and by the actions taken by the Board since the 2017 AGM. Following our appointment the Board's priorities have been to:

(i) ensure that POX is delivered on time and on budget;

(ii) refinance the Group's bank debt to provide medium term financial stability and flexibility for the business. This has been achieved through the successful issuance, in November 2017, of the Notes;

(iii) ensure the successful ramping up of the Group's underground mining operations, maximising operational efficiency and cashflow potential, whilst ensuring the safety of our employees and contractors; and

(iv) seek new options to resolve the potential liability of the Company's guarantee to ICBC in respect of IRC's loan facility and maximise the value of the Group's equity interest in IRC.

I and my fellow Directors remain committed to this strategy. In addition the Board has announced the appointment of an experienced CEO who we expect to modernise the Group's practices and procedures. Details of the progress made in the implementation of our strategy and proposed actions, together with the management of associated risks, are included in the Strategic Report.

This Governance Report demonstrates the Board's commitment to good standards of governance and to improving its engagement with all of the Company's shareholders and stakeholders, whilst delivering its strategy. I hope that you will find it informative.

Ian Ashby
Chairman
27 March 2018

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

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

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

This Governance Report is arranged around these main principles and together with the Audit Committee Report (on pages 108 to 113, the Remuneration Committee Report (on pages 115 to 132) and the Nomination Committee Report (on pages 106 and 107) sets out how the Company has applied the main principles of the Code during 2017.

The Company has complied with the requirements of the Code published in April 2016 throughout the year ended 31 December 2017, with the exception of the following:

Provision E.2.4 of the Code requires that the Company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting. The Company did not meet this deadline for the 2017 AGM due to the time required to consider and include the additional resolutions proposed by three of its major shareholders as detailed on page 98. The Board considers that these were exceptional circumstances and it does not envisage that it will be non-compliant with this Code provision in the future.

In addition the following should be noted:

Provision B.1.1. of the Code requires that the Board should state its reasons for determining that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination.

Mr Robert Jenkins provided advice to the Company, principally to the Audit Committee and Non-Executive Directors, during the refinancing of the Group's 4% Convertible Bonds due 2015 which completed in March 2015 and prior to his appointment as a Director. The Board did not deem that this constituted a material business relationship with the Company. Accordingly, the Board considered that Mr Jenkins was independent at the date of his appointment and that he continued to be an independent director of the Company until his retirement from the Board on 22 June 2017.

Provision B.6 of the Code requires the Board to report on performance of the Board evaluation. Following the change of the Chairman and Non-Executive Directors on 22 June 2017 and the resignation of the Chief Executive Officer on 17 July 2017 it was considered appropriate to defer the annual evaluation of the Board's performance and that of its Committees in 2017 until the latter part of 2018. Details of this evaluation will be included in the 2018 Annual Report.

Role of the board

Current Membership:

Mr Ian Ashby,
Non-Executive Chairman
Mr Bektas Mukazhanov,
Non-Independent Non-Executive Director
Mr Sergey Ermolenko,
Interim Chief Executive Officer
Mr Bruce M. Buck,
Senior Independent Director
Mr Adrian Coates,
Independent Non-Executive Director
Mr Andrey Maruta,
Chief Financial Officer
Mr Garrett Soden,
Independent Non-Executive Director

Further information:

– The Group's strategy, set by the Board, is fully described in the Strategic Report on pages 14 and 15.

– Directors' Biographies are on pages 94 to 95.

The Board is responsible:

– for the Group's system of corporate governance and is ultimately responsible for the Group's activities, strategy, risk management and financial performance; and

– to shareholders for the long-term sustainable success of the Company. The Board's role is to ensure that the Company follows this strategy and that a financial and operational structure is in place to enable the Group to meet its goals.

The Board has adopted a formal schedule of matters reserved for the Board's decision a copy of which is available at www.petropavlovsk.net. These matters include responsibility for the determination and monitoring of the Company's strategic aims, budgets, major items of Capital Expenditure◆ and senior appointments.

Code compliant:
The Board comprises a Non-Executive Chairman and three Independent Non-Executive Directors.

Board changes during the year

At the Annual General Meeting held on 22 June 2017, shareholders did not vote for the re-election of the Executive Chairman Mr Peter Hambro or the Company's three Independent Non-Executive Directors, Messrs Alexander Green, Robert Jenkins and Andrew Vickerman. Accordingly these individuals retired from the Board on 22 June 2017.

At the same meeting, shareholders approved the appointment of the following new Directors, Messrs Ian Ashby, Bruce Buck, and Garrett Soden as Independent Non-Executive Directors and Vladislav Egorov as a Non-Independent Non-Executive Director. These appointments were proposed by certain shareholders having a substantial interest in the Company's issued ordinary shares. At the time of his appointment and until the date of his resignation on 1 January 2018 Mr Egorov held the position of a Deputy M&A and Project Director at Renova Group, formerly the Company's major shareholder.

Dr Pavel Maslovskiy resigned as a Director of the Company and as Chief Executive Officer on 17 July 2017. Mr Sergey Ermolenko was appointed as Interim Chief Executive Officer on 18 July 2017.

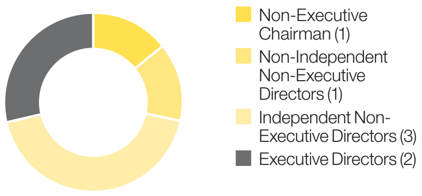
◆ Go to pages 197 to 203 for more information on our APMs.

Role of the board

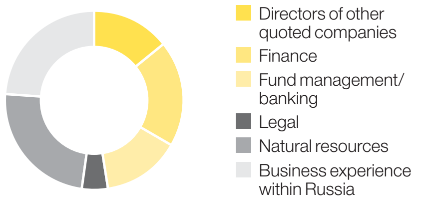
Board changes announced during 2018	– Mr Egorov resigned from the Board on 1 January 2018 following the disposal by the Renova Group of its entire shareholding in Petropavlovsk, as announced by the Company on 27 December 2017. – Mr Bektas Mukazhanov was appointed as a Non-Independent Non-Executive Director on 8 February 2018. At the time of his appointment Mr Mukazhanov was Investment Adviser and a Director of Fincraft Holdings Ltd, the Company's major shareholder. Mr Mukazhanov resigned as a Director of Fincraft Holdings Ltd, on 8 February 2018, following his appointment as a Director of the Company, but retains the position of an employee. – Mr Adrian Coates was appointed as an Independent Non-Executive Director on 16 February 2018. – The appointment of Mr Roman Deniskin as Chief Executive Officer of the Company with effect from 16 April 2018 was announced on 8 February 2018. – The resignation of Mr Andrey Maruta as Chief Financial Officer of the Company effective from 31 March 2018 was announced on 16 February 2018. Details of the process undertaken by the Company on the appointment of the above Directors are provided in the Nomination Committee Report on pages 106 to 107.
Board composition and roles	
Non-Executive Chairman: **Mr Ian Ashby**	The Chairman provides the leadership to and direction of the Board. This is necessary to promote the success of the Company and create value for shareholders in the long-term, whilst ensuring that sound, effective corporate governance practices are embedded in the Group and in its decisions making processes.
Interim Chief Executive Officer: **Mr Sergey Ermolenko**	Supported by the Chief Financial Officer and the Executive Committee, the Chief Executive Officer has day to day responsibility for the Group's operations within Russia, for developing the Group's objectives and strategy and for the successful achievement of objectives and execution of strategy, following approval by the Board.
Code Compliant: *The Non-Executive Chairman and Chief Executive Officer have clearly defined and separated responsibilities.*	
Chief Financial Officer: **Mr Andrey Maruta**	The Chief Financial Officer supports the Chief Executive Officer in implementing the Group's strategy in addition to his specific responsibilities as Chief Financial Officer.
Senior Non-Executive Director: **Mr Bruce M. Buck**	The Senior Independent Director provides an independent point of contact to shareholders on Board matters or any matters of concern that shareholders have been unable to resolve through the normal channels of Chairman, Chief Executive or other Executive Directors or for which such contact is inappropriate.
Independent Non-Executive Directors: **Mr Bruce M. Buck** **Mr Garrett Soden** **Mr Adrian Coates**	The Independent Non-Executive Directors are responsible for bringing independent and objective analysis to all matters before the Board and its Committees, using their substantial and wide ranging experience. They bring to the Board a diverse range of business and financial expertise which complements the experiences of the Executive Directors. They challenge management, helping develop the Group's strategy, and monitor the performance of management.
Code compliant: *In accordance with the requirement of the Code in respect of smaller companies, the Board was comprised of at least two independent directors at all times during 2017.*	

Code compliant:
Non-Executive Chairman
Senior Independent Non-Executive Director
Three Independent Non-Executive Directors (including SID)
The Non-Executive Directors meet periodically with the Chairman without the Executives being present.
The Non-Executive Directors hold meetings without the Chairman or Executive Directors being present.

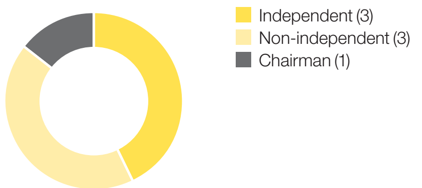
Board balance of Directors



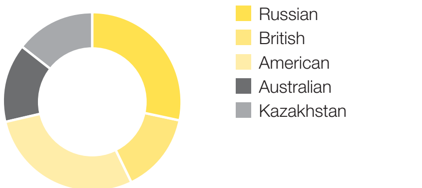
Business experience



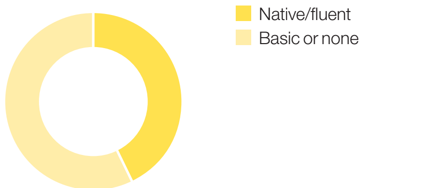
Independence



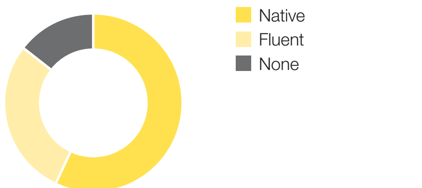
Nationality



Language skills – Russian



Language skills – English



Effectiveness and Accountability of the Board

The Directors Business Experience, Independence and Country of Permanent Residence
The graphs illustrate the collective business experience of the Directors outside that acquired at Petropavlovsk PLC as at the date of this report, Director Independence as determined by the Board, nationality and language skills.

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

The Board believes that the Directors have the necessary skills and level of experience in order to effectively implement the Group's strategy.

Board activities during the year
In 2017, the Board met on six scheduled occasions, with 13 additional meetings held during the year, principally due to the issuance of the Notes. Many of these additional meetings were called at short notice and were accommodated as conference calls. Further Board meetings were held to deal with matters of a routine or administrative nature.

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

- Consideration of the issuance of the Notes, on 14 November 2017, to refinance the Group's loan facilities provided by Sberbank and VTB Bank.
- Monitoring the progress of the construction of the POX Hub and the underground mining operations which are critical to the Group's future, including receiving presentations from members of the Executive Committee on the POX construction.
- Monitoring the progress of the commissioning of IRC's K&S Facility and the financial position of IRC given the Company's guarantee in respect of IRC's ICBC facility.
- Reviewing and approving the Company's first 'Modern Slavery and Human Trafficking Statement' which is available on the Company's website at www.petropavlovsk.net.
- The appointment of a new Chief Executive Officer to replace Dr Pavel Maslovskiy who resigned as a Director and as Chief Executive Officer on 17 July 207.

Committees of the Board in 2017
As explained on page 98, four new Non-Executive Directors were appointed to the Board on 22 June 2017, with three Independent Non-Executive Directors and the Executive Chairman departing the Board on the same date.

The Board had four committees focusing on specialist areas, which were ultimately accountable to the Board. These comprised:

- The Audit Committee;
- The Nomination Committee;
- The Remuneration Committee; and
- The HSE Committee.

The Board committees met independently and provided feedback to the Board through their chairmen.

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

The Board believes that the Directors have the necessary skills and level of experience in order to effectively implement the Group's strategy.

Committee membership from 22 June 2017

	Audit Committee	Remuneration Committee	Nomination Committee	HSE Committee
Ian Ashby	Member	Member	Chairman	
Bruce M. Buck	Member	Chairman		Member
Vladislav Egorov			Member	Chairman
Garrett Soden	Chairman	Member	Member	
Pavel Maslovskiy[1]			Member	Member
Sergey Ermolenko				Member

1 Dr Maslovskiy resigned as a member of the HSE Committee and the Nomination Committee on 17 July 2017 upon his resignation as Chief Executive Officer and a Director of Petropavlovsk PLC.

Committee membership from 1 January to 22 June 2017

	Audit Committee	Remuneration Committee	Nomination Committee	HSE Committee
Peter Hambro[2]			Chairman	
Alexander Green[2]	Member	Member	Member	Chairman
Robert Jenkins	Chairman		Member	
Pavel Maslovskiy				Member
Andrew Vickerman[2]	Member	Chairman	Member/Chairman	Member
Dmitry Chekashkin				Alternate to Pavel Maslovskiy
Alya Samokhvalova[3]				Member[2]

2. Mr Vickerman was appointed as Chairman of the Nomination Committee on 27 April 2017, succeeding Mr Hambro who retired as a member of the Committee and Committee chair on that date. Mr Green was appointed as a member of the Nomination Committee on 27 April 2017.

3. Dr Samokhvalova continues to attend HSE Committee meetings at the request of the HSE Committee Chair.

A diagram including the principal role of each of these Board Committees is shown on page 104.

Board composition, independence and commitment
From 1 January 2017 to the Annual General Meeting held on 22 June 2017, the Board comprised:

- an Executive Chairman;
- Chief Executive Officer;
- Chief Financial Officer; and
- three Independent Non-Executive Directors.

Following the constitution of a new Board on 22 June 2017 and for the remainder of 2017, the Board comprised:

- a Non-Executive Chairman;
- Chief Executive Officer;
- Chief Financial Officer;
- two Independent Non-Executive Directors; and
- one Non-Independent Non-Executive Director.

Changes to the Directors during 2017 and up until the date of this Annual Report are provided on page 132.

It is the Board's view that the current Non-Executive Directors have sufficient time to fulfil their commitments to the Company. No Executive Director holds a Non-Executive Directorship in any company. The Board together with the Nomination Committee considers the appropriateness of Board composition and further details are provided in the Nomination Committee Report on pages 106 and 107.

The Board provides sufficient resources to its Committees to enable them to undertake their duties.

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

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

The Board considers that visits to the Group's gold mining operations are an important part of a Director's induction and their understanding of the size and scale of the Group's operations.

Mr Ashby, Chairman and Mr Egorov, Non-Independent Non-Executive Director visited the Group's four principal mines and the POX Hub construction in August 2017 shortly after their appointment as Directors. They also visited the IRC K&S facility and met with IRC's Executive management team. In addition they visited the Group's offices both in Blagoveshchensk, meeting with members of the Group's Operations Committee and in Moscow where they had meetings with members of key management.

In his capacity as HSE Committee chair, Mr Egorov also visited the Group's offices in Moscow and Blagoveshchensk later in the year together with Dr Alya Samokhvalova, Deputy Chief Executive Strategic Development, meeting with various members of the Group's H&S department to fully understand how the Group manages the health and safety of its employees.

It is proposed that other members of the Board will visit the Group's operations during 2018 and a Board meeting will be held in the Group's Moscow offices later this year, in order that the

Board can meet with more members of the Petropavlovsk management team.

The Non-Executive Directors may attend conferences and seminars on the mining industry at the Company's expense to enhance and update their knowledge. The Directors receive briefings on regulatory and corporate governance issues from the Company Secretary and the Company's advisors and a programme of directors training has been prepared for 2018 by the Company Secretary at the request of the Chairman.

Information flow
Prior to each Board meeting the Directors receive detailed information on operational and financial performance, activities of the Board Committees, investor relations and projects that are being progressed by the Executive management. The Board receives presentations and verbal updates from the Executive Directors and members of the Executive Committee at Board meetings as appropriate. All Directors are encouraged to make further enquiries, and request further information as they feel appropriate, of the Executive Directors or management. All Directors are encouraged to participate actively in Board meetings which are chaired in an open and collaborative manner.

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

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

Investor engagement during the year
2017 Annual General Meeting

The following table details the four resolutions proposed at the 2017 AGM which received significant votes against and a further two resolutions which were withdrawn immediately prior to the meeting due to lack of shareholder support.

Resolutions:	'For'	'Against'
Re-election of Mr Robert Jenkins	33.50%	66.50%
Re-election of Mr Alexander Green	33.52%	66.48%
Re-election of Mr Andrew Vickerman	33.40%	66.60%
Re-election of Mr Peter Hambro	30.13%	69.87%
Renewal of authority to allot shares for cash other than to existing shareholders (Resolutions 17 and 18)	Withdrawn prior to meeting	

The Board is mindful of its obligation to maintain a dialogue with shareholders based on a mutual understanding of objectives and considers that certain of the votes 'against' the above Directors were, to a certain extent, due to an absence of mutual understanding. Following the 2017 AGM, Mr Ashby, Chairman, Mr Buck, Senior Independent Director and Mr Soden, Independent Non-Executive Director, who were proposed for appointment by certain major shareholders of the Company, have ensured together with Dr Alya Samokhvalova, Deputy CEO Strategic Development, that the Group's investor relations programme is appropriate and that the Board updates the market on a regular basis to provide consistency and transparency regarding its strategy.

The Board met with Fincraft Holdings Ltd ('Fincraft') in February 2018 following their acquisition of 13.3% of the Company's issued ordinary shares in December 2017 to listen to their views on the Company. On the basis that Fincraft is the Company's major shareholder it was agreed that Mr Bektas Mukazhanov, the Investment Advisor and then-Director of Fincraft should join the Board. These discussions culminated in his appointment as a Director on 8 February 2018. Mr Mukazhanov does not participate in any discussions or decisions of Fincraft regarding its investment in the Company.

The Board also appreciates that although the Executive Chairman and the three Independent Non-Executive Directors were not re-elected at the 2017 AGM, a significant number of shareholders were supportive of their re-election. Since his appointment Mr Ashby has participated in the investor roadshow following the 2017 interim results announcement and as part of the launch of the Notes in order to meet with both existing and potential shareholders, to explain the strategy of the Board and address any concerns they may have. Messrs Buck and Soden were also available to discuss matters of concern with shareholders in the months following the 2017 AGM and have met with major shareholders since that date.

Following the 2017 AGM the Board spoke with certain shareholders regarding their intention to vote against the two special resolutions to allot ordinary shares for cash other than to existing shareholders to understand and address their concerns.

All resolutions at the 2017 AGM were voted by way of a poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the UK Corporate Governance Code, all resolutions were voted separately and the final voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were released to the London Stock Exchange as soon as practicable after the meeting.

Investor engagement
The Board aims to maintain an open and transparent dialogue with its shareholders and potential shareholders. The Investor Relations department manages the interaction with these audiences and ensures that full and comprehensive information is available to all shareholders. Shareholders are welcome to contact the Company's Investor Relations department during the year with any specific queries regarding the Company. Small retail shareholders are important to the Company and the investor relations team ensures that copies of all investor presentations are made available on the Company's website at www.petropavlovsk.net

Over 100 meetings were held by the Company with a range of equity shareholders, both existing and potential, and fixed income investors following the 2017 interim results announcement and as part of the launch of the Notes issued in November 2017. The Chairman participated in these meetings in both London and the USA. During the year executive management also attended investor conferences in Europe, including both London and Moscow.

The Executive Directors and Deputy CEO Strategic Development ensure that any significant concerns raised by a shareholder in relation to the Company are communicated to the Board. Feedback from meetings held between the Executive team and institutional shareholders is also communicated to the Board.

The 2018 Annual General Meeting
Individual shareholders are important to the Company and the Board encourages as many shareholders as possible to attend the Company's Annual General Meeting during which shareholders are given the opportunity to discuss matters with the Board.

The Audit and Remuneration Committee Chairmen will be available, at the forthcoming AGM, to answer any questions relating to those committees. The Company Chairman will be available to answer any questions relating to the work of the Nomination Committee.

Annual re-election of Directors
In accordance with the recommendations of the Code, all eligible Directors will be offering themselves for re-election or appointment at the AGM on 21 June 2018. The re-election of each of the Directors has been reviewed by the Nomination Committee and the Board who are satisfied that each of the Directors continues to be effective and demonstrates commitment to the role. The Board recommends that shareholders vote in favour of the resolutions to appoint or re-elect all of the eligible Directors of the Company and the reasons for this recommendation will be set out in the letter from the Chairman accompanying the Annual General Meeting.

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

Board Committees
A diagram detailing the corporate governance framework established by the Board including the principal role of each Board Committee is shown on page 104.

Board structure – as at 31 December 2017

Board
– Responsible for the Group's system of corporate governance
– Ultimately accountable for the Group's activities, including strategy, risk management and financial performance.

Board Committees

Audit Committee

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

Membership

Garrett Soden (Chair)

Ian Ashby

Bruce M. Buck

See pages 108 to 113 for more information

Remuneration Committee

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

Membership

Bruce M. Buck (Chair)

Ian Ashby

Garrett Soden

See pages 115 to 132 for more information

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.

Membership

Ian Ashby (Chair)

Vladislav Egorov

Garrett Soden

See pages 106 to 107 for more information

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.

Membership

Vladislav Egorov (Chair)

Bruce M. Buck

Sergey Ermolenko

Please see Sustainability on pages 64 to 79.

Board membership as at 31 December 2017.
All Committees are authorised to obtain legal or other professional advice as necessary and to secure the attendance of external advisers at their meeting.

The Company also operates an Executive Committee comprising of the Executive Directors and key executives within the Company. The Executive Committee is:

– responsible for the day to day management of the Company; and

– acting as a conduit between management and the Board.

Members of the Executive Committee as at 31 December 2017 are:

Mr Sergey Ermolenko, *Interim Chief Executive Officer*
Mr Andrey Maruta, *Chief Financial Officer*
Mr Valery Alexseev, *Group Head of Construction and Engineering*
Mr Dmitry Chekashkin, *Chief Operating Officer*
Mr Alexey Maslvoskiy, *Business Development Manager*
Dr Alya Samokhvalova, *Deputy CEO Strategic Development*
Mrs Anna-Karolina Subczynska, *Group Head of Legal Affairs*
Mr Andrei Tarasov, *Deputy General Director Management Company Petropavlovsk*
Mr Nikolai Vlasov, *Group Chief Geologist*

The Company Secretary acts as secretary to the Audit, Remuneration, Nomination and HSE Committees. The Deputy Company Secretary acts as secretary to the Executive Committee.

Meetings of the Board, Board Committees and attendance to 22 June 2017

	Board[1]		Audit		Remuneration		Nomination[9]		HSE	
Peter Hambro[2]	C	3/3	–	2	–	2/2	C	1/1	–	2
Pavel Maslovskiy[3]	M	3/3	–	1	–	–	–	–	M	2/2
Alexander Green[2,4]	M	3/3	M	2/2	M	2/2	M	–	C	2/2
Robert Jenkins[2,4]	M	3/3	C	2/2	–	–	M	1/1	–	–
Andrey Maruta	M	3/3	–	2	–	–	–	–	–	–
Andrew Vickerman[2,4]	M	3/3	M	2/2	C	2/2	M/C	1/1	M	2/2

Meetings of the Board, Board Committees and attendance from 22 June 2017

	Board[1]		Audit		Remuneration		Nomination		HSE	
Ian Ashby[4,5]	C	4/4	M	2/2	M	2/2	C	1/1	–	–
Pavel Maslovskiy[3]	M	1/1	–	–	–	–	M	–	–	–
Sergey Ermolenko[6]	M	2/2	–	–	–	–	–	–	M	1/1
Bruce M. Buck,[4,5]	M	4/4	M	2/2	C	2/2	–	–	M	3/3
Vladislav Egorov[5]	M	4/4	–	–	–	–	M	1/1	C	3/3
Andrey Maruta	M	4/4	–	2/2	–	–	–	–	–	–
Garrett Soden[4,5]	M	4/4	C	2/2	M	2/2	M	1/1	–	–

Key: C= Chairman, M=Member

1 Scheduled Board meetings. Additional Board meetings were held during the year, principally relating to the issuance of the Notes and strategic matters.
2 Retired as a Director on 22 June 2017.
3 Resigned as a Director on 17 July 2017.
4 Director who the Board has determined to be independent.
5 Director appointed to the Board on 22 June 2017.
6 Appointed as a Director and as Interim Chief Executive Officer on 18 July 2017.
7 Directors who are not members of the Audit, Remuneration and HSE Committees may attend meetings at the invitation of the Chairman of that Committee.'
8 Dr Alya Samokhvalova was a member of the HSE Committee until 22 June 2017. Dr Samokhvalova continues to attend meetings of the HSE Committee at the request of the Committee Chairman.
9 Mr Vickerman was appointed as Chairman of the Nomination Committee on 27 April 2017, succeeding Mr Hambro who retired as a member of the Committee and Committee chair on that date. Mr Green was appointed as a member of the Nomination Committee on 27 April 2017.

Nomination Committee Report

Letter from the Nomination Committee Chairman

Dear Shareholder

I am pleased to present this, my first report as Nomination Committee chair. My colleagues on the Committee as at 31 December 2017 were Vladislav Egorov and Garrett Soden. Following Vladislav's resignation as a Director on 1 January 2018, Bruce Buck was appointed as a member of the Committee. Details of Committee membership during 2017 are provided on page 101.

Board changes

As detailed in the Governance Report, 2017 to date has been a period of significant change in relation to the composition of the Board. This report sets out the actions undertaken by the Committee in respect of these changes.

Following the resignation of Dr Pavel Maslovskiy as Chief Executive Officer on 17 July 2017, the Committee's principal focus was on the recruitment of an outstanding candidate for the CEO position, with the requisite skills and experience to work closely with the Board and lead the executive management team in achieving the Company's objectives. This comprehensive search process was facilitated by a third party external worldwide executive search firm, specialising in chief executive and senior level assignments. This process culminated in the Committee's recommendation to the Board of the appointment of Mr Roman Deniskin as Chief Executive Officer. Prior to his appointment Roman was introduced to our major shareholders: Fincraft Holdings Ltd, Sothic Capital, the D.E. Shaw group and M&G Investments, all of whom gave their full support. Roman will be appointed as Chief Executive Officer on 16 April 2018. The Committee and the Board consider that Roman will bring all the necessary experience and leadership attributes required as the Company enters a new phase in its history with the completion of the POX Hub and the start-up of the Group's underground mining operations.

In addition, the Committee considered the appointment of Mr Bektas Mukazhanov as a Non-Independent Non-Executive Director. Mr Mukazhanov was proposed as a Director by the Company's major shareholder, Fincraft Holdings Ltd. Prior to his appointment on 8 February 2018, Mr Mukazhanov met with all members of the Committee, and his appointment was then recommended to the Board. The Committee also consulted with certain of the Company's major shareholders prior to this appointment. Following his appointment as a Director, Mr Mukazhanov has resigned as a Director of Fincraft Holdings Ltd and he has removed himself from any decisions by Fincraft regarding their investment in Petropavlovsk PLC.

Strengthening of the Board

There has been a high degree of Board activity post the 22nd June 2017 Board restructure which led to the appointment of myself as Chairman and Bruce Buck and Garrett Soden as Independent Non-Executive Directors. In particular there has been the issuance of the Notes and increased activity relating to our interest in IRC. As a result, it was agreed in the latter part of 2017 that the Board should be further strengthened by the addition of two Independent Non-Executive Directors. A search firm was appointed by the Committee to progress these appointments.

Mr Adrian Coates' details were submitted into this process as a potential candidate, following which he met with all members of the Committee and the Chief Financial Officer. In addition, his details were provided to certain of the Company's major shareholders and it was thought that his many years' of experience in the investment banking industry with a specialisation in the natural resources sector together with his experience of Russian companies would provide additional depth to the Board. It has been proposed to IRC Ltd that Mr Coates should join the IRC Board and discussions in this respect are ongoing. Mr Coates' appointment as an Independent Non-Executive Director of the Company was announced on 16 February 2018.

The Committee is continuing its search for an additional Independent Non-Executive Director and a detailed candidate profile has been agreed with the external consultants.

In addition we are now leading the process on behalf of the Board and working together with an independent third party executive search firm to identify a successor to Mr Andrey Maruta, Chief Financial Officer, who will be leaving the Board on 31 March 2018. The Committee will be working closely with Mr Deniskin on this appointment.

Diversity statement

In assessing candidates for the position of either an Independent Non-Executive Director or an Executive Director the Committee will consider the composition of the Board to ensure diversity of gender, ethnicity, age and education and professional backgrounds.

I am pleased to note the diversity of our Board in many areas. Our Board comprises of individuals of Russian, American, Australian, British and Kazakhstan background and nationality. Our ages range from 35 to 72 and we have a broad range of professional expertise and experience including in mining, finance and legal and in many geographical regions. However, although the Company's Executive Committee comprises c.22% of women, the Committee notes the lack of gender balance on the Board. The Committee hopes that this issue can be partially addressed in the current search for a new Independent Non-Executive Director. Ultimately, the Board's recruitment decisions, at all levels, are driven by the need to ensure the longer-term success of the Company, by appointing the person that most closely matches the requirements for the position, regardless of their background or gender.

Details of the gender balance of our employees is provided in the Sustainability report on page 66 this also includes the proportion of women appointed in office roles and with higher education.

Board composition
Following the proposed appointments the Board will constitute a Non-Executive Chairman, Chief Executive Officer, Chief Financial Officer, four Independent Non-Executive Directors and one Non-Independent Non-Executive Director. The Committee considers that given the stage of the Company's development, including its transition to POX and the focus on resolving the IRC guarantee this composition is optimal.

Succession planning
Given the complete change in the Committee's membership in June 2017, extensive Board changes during 2017 and to date including changes to the Executive Directors, the Committee has not considered succession planning as a separate agenda item. As at 1 April 2018 all Directors will have served less than one year on the Board. Succession planning for other senior executives will be considered by the Committee together with the new Chief Executive Officer following his appointment.

Effectiveness of the Committee
The Committee has not reviewed its effectiveness during 2017. Due to changes in Committee membership as detailed in this report this was not deemed to be appropriate. However it is the intention that a review will be carried out in the latter part of 2018.

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

Ian Ashby
Chairman,
Nomination Committee
27 March 2018

Additional activities during the year:
- Evaluation of each of the eligible Directors in respect of their re-election and subsequent recommendation to the Board.
- Approval of the 2016 Nomination Committee Report.

Audit Committee Report

Letter from the Audit Committee Chairman

Dear Shareholder

I am pleased to introduce my first report as Audit Committee Chair. I was appointed as Chairman on 22 June 2017 immediately following my appointment as an Independent Non-Executive Director of the Company at the 2017 Annual General Meeting. My colleagues on the Committee are Mr Ian Ashby, the Company's Chairman, and Mr Bruce Buck, Senior Independent Director, who were also both appointed as Non-Executive Directors of the Company on 22 June 2017. Details of Committee membership during the year are detailed on page 101 of this Annual Report.

Following my appointment as Audit Committee chair I had several meetings with key members of the executive management team and the Company's internal and external auditors in order to better understand the matters that needed to be addressed by the Committee and the challenges facing the Group. I continue to meet regularly and maintain an active dialogue with senior management and our auditors in order to keep the Committee well informed of matters under its remit.

Significant judgements

The new members of the Committee met formally for the first time in early September 2017, at which time the Committee considered the 2017 interim results, receiving reports from both our auditors and management. Matters requiring significant judgement of the Committee included the assessment of the going concern assumption, impairment of the Group's mining assets and the recoverability of gold-in-circuit inventory. The Committee was pleased to note that gold-in-circuit held on the balance sheet had substantially reduced from US$70.6m at 31 December 2016 to US$40.7m at 30 June 2017 due to the success of the acid wash commissioned in H1 2017 that is used to treat Pioneer resin. The amount of gold-in-circuit held on the balance sheet as at 31 December 2017 has reduced further to US$24.2m. Consequently, this is no longer considered as a significant matter for the Committee's judgement.

The issuance, in November 2017, of US$500m 8.125% Guaranteed Notes due 2022 (the 'Notes') has provided the Group with medium term financial stability and flexibility for the business. The subsequent repayment of the Group's loan facilities with Sberbank and VTB, the removal of financial covenants previously in these banking facilities and the bullet repayment schedule of of the Notes has significantly de-risked the Company, with its production and maturity profiles now balanced. However, the extraordinary guarantee given to ICBC in respect of the project finance facility provided to IRC for the construction of the K&S iron ore facility still presents a significant risk to the Group and this remains a key focus of the Committee in its deliberation of the going concern assumption and a key consideration when advising the Board on the viability statement. The Board continues to review new options to resolve this potential liability.

Accordingly, the main focus of the Committee in its review of the 2017 financial statements remained the going concern assumption. The other significant judgement for the Committee's consideration related to the potential impairment of the Group's mining assets, including the POX Hub, which is due to be commissioned in Q4 2018.

Under the 2016 UK Corporate Governance Code (the 'Code'), the audit committee should have primary responsibility for negotiating the fee and scope of the audit, initiating a tender process, influencing the appointment of an engagement partner and making formal recommendations to the board on the appointment, reappointment and removal of the auditors. The Committee is mindful that Deloitte LLP has been auditor to the Company since 2009 and as such the Committee gave serious consideration to a tender of the audit during the year. However, given that the Committee was only constituted in its current form in June 2017 and that the Board was in the process of recruiting a new Chief Executive Officer, it was agreed that the timing of such a tender was not optimal. The Committee intends to consider this matter following the appointment of the incoming Chief Executive Officer and a new Chief Financial Officer, and expects that the audit will be put to tender later this year in order to appoint the audit firm that will provide the highest quality, most effective and efficient audit. Amongst other matters, the tender is likely to consider the quality and cultural fit of the lead partner and key members of their team, approach to client services and quality of the audit, technical expertise and independence of the audit firm.

The Committee continues to assist the Board in its review of the Group's internal control systems. Following Mr Maruta's decision to resign as Chief Financial Officer, effective from 31 March 2018, the Committee has discussed with him and other members of senior management the additional financial controls and procedures that should be implemented following his departure to ensure that appropriate controls are in place prior to the appointment of his successor.

In addition, the Committee has received presentations from the Group Head of Internal Audit and has reviewed and approved the scope of internal audit for 2018 to ensure that this function addresses relevant risks.

The Committee continues to oversee the reporting process in order to ensure that the information provided to shareholders in this Annual Report taken as a whole is 'fair, balanced and understandable' and allows assessment of the Company's performance, business model and strategy. In addition the Committee has again advised the Board on the viability statement required under the Code.

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

Garrett Soden
Audit Committee Chairman
27 March 2018

Governance
Mr Soden is considered by the Board as having the requisite and relevant financial experience due to his previous experience as both a senior executive and Audit Committee chair of listed natural resources companies. Mr Soden also holds a BSc honours degree from the London School of Economics and an MBA from Columbia Business School. Messrs Soden and Ashby have extensive executive experience in the natural resources and mining sectors respectively, whilst Mr Buck, through his work at the law firm of Skadden, Arps, Slate, Meagher and Flom, has been involved in work in the Russian Federation since 1990. The Board therefore considers that the Committee as a whole has competence relevant to the sector in which it operates. The biographies of Messrs Soden, Ashby and Buck are provided on pages 94 and 95.

The Chief Executive Officer, the Chief Financial Officer, the Group Head of Internal Audit and Group Head of Corporate Reporting, other Directors and representatives of the external auditors are invited to attend all Committee meetings with Deloitte LLP, the external auditor, attending all Committee meetings in 2017. In addition, the Committee Chairman meets on a regular basis with the Chief Financial Officer to discuss any issues and with the lead partner of the external auditor on a regular basis and prior to each Committee meeting.

Mr Timothy Biggs, the leader of Deloitte's UK metals and mining sector, was appointed as lead audit partner in 2014. Under independence requirements, he is required to rotate as lead audit partner following the audit for the year ending 31 December 2018.

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

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

- the integrity of the Company's financial statements and the significant reporting judgements contained in them;
- the appropriateness of the Company's relationship with the external auditor, including auditor independence, fees and provision of non-audit services;
- the effectiveness of the external audit process, making recommendations to the Board on the appointment of the external auditor;
- the effectiveness of the Group's internal control and financial and tax risk management systems;
- where requested by the Board, providing advice on how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate; and
- advising the Board on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

In carrying out its responsibilities, the Committee has full authority to investigate all matters within its terms of reference. Accordingly, the Committee may:

- obtain independent professional advice in the satisfaction of its duties at the cost of the Company; 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
During the year, amongst other matters, the Committee:

Financial statements and reports
- Reviewed the 2016 Annual Report and Accounts and the six months' Half Year report ended 30 June 2017 before recommending their adoption by the Board. As part of these reviews the Committee received reports from the external auditor, reviewed accounting policies, estimates and judgements applied by management in preparing the relevant statements and the transparency and clarity of disclosure contained within them.
- Considered whether the 2016 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and reported to the Board on its conclusion.

Risk management
- Considered the output from the Group's financial and tax review process undertaken to identify, evaluate and mitigate risks, advising the Board of changes in these risks as appropriate. See pages 24 to 27 of the Risks to Our Performance section which describes the Group's principal financial risks during the year and actions taken to mitigate against them.
- Received and considered reports detailing litigation in which the Company and/or any of its subsidiaries are involved.

Internal audit
- Evaluated the effectiveness and the scope of work to be undertaken by Group Internal Audit during 2017, which included audits to be performed at the Group's mining operations and the Group's offices in both Moscow and Blagoveshchensk. During the year the Group Head of Internal Audit presented his findings to the Committee from various assignments internal audit had been requested to undertake by the Committee. The presentation included details of issues identified and subsequent actions taken.
- Audits undertaken during the year, amongst others, were:
  - procurement function,
  - supply chain management,
  - management reporting – budgeting and forecasting, and
  - operational audit of LLC BMRP.
- Reviewed and approved the 2018 audit plan which will include an audit of the POX Hub construction, underground operations and continuation of the management reporting audit.
- Reviewed management responses to audit reports issued during the year.
- Approved the appointment of an additional member of the internal audit function to ensure that it has the necessary resources to perform its mandate.

External auditor and non-audit work
- Reviewed, considered and agreed the scope and methodology of the audit work to be undertaken by the external auditor.
- Agreed the terms of engagement for the audit of the 2017 financial statements.

Governance

– Evaluated the independence and objectivity of the external auditor

To date in 2018 the Committee has reviewed, amongst others, the following matters in relation to the 2017 financial statements.

– The going concern assumption.

– Impairment of mining assets.

The Committee has also advised the Board on:

– whether the 2017 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 140; and

– the viability statement of the Company required in accordance with provision C.2.2 of the Code. The viability statement is set out on page 139.

Significant issues considered by the Committee during 2017 – 2017 Interim review

The going concern assumption

The key judgement for the Committee during 2017 related to the appropriateness of the basis of accounting. During the year the Group's assessment was highly sensitive.

– The Group's projections under a layered stressed case that was based on a US$1,125oz gold price, which at that time was the bottom end of market consensus forecast, indicated that unless mitigating actions could be taken, there would be insufficient liquidity and non-compliance with certain covenants under a layered stressed case for the period to September 2018.

– In relation to IRC: If scheduled full commercial production of the K&S project is not achieved or the market conditions turn out to be significantly less favourable than predicted IRC's financial liquidity may be adversely impacted. IRC would then need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

Committee action

Given the implications of the layered stressed case and the importance of IRC's financial position due to the Company's guarantee, the Committee continually monitored these matters and considered the appropriateness of the going concern assumption by:

– discussing with the Executive Directors the potential options that were available to the Company to mitigate the risk of insufficient liquidity or non-compliance with certain covenants, including refinancing the existing debt or raising additional equity and assessing whether these proposed mitigating actions were realistic. The issuance of the Notes in November 2017 has addressed this risk; and

– receiving regular updates from IRC's Executive Directors on the commissioning of K&S and on their contingency plans.

Conclusion

When reviewing the half-yearly financial statements for the six months' ended 30 June 2017, the Committee considered the options available to the Company and the progress of IRC and noted that whilst there could be no guarantee that either the Company or IRC could undertake their proposed mitigating actions if needed the Directors had a reasonable expectation that they would be able to do so and therefore the going concern basis of accounting remained appropriate.

Significant issues considered by the Committee in the context of the 2017 financial statements:

The Committee identified the issues below as significant in the context of the 2017 financial statements. The Committee considers these areas to be significant taking into account the level of materiality and the degree of judgement exercised by management. The Committee has debated these issues in detail to ensure that the approaches taken were appropriate.

Issue	Committee action	Conclusion

The going concern assumption
The key judgement for the Committee for the 2017 financial statements related to the appropriateness of the basis of accounting.
 	
The Directors perform an assessment of the Company's ability to continue as a going concern at the end of each reporting period. The period of the assessment covers at least twelve months from the date of signing of the financial statements. As the Company has guaranteed the outstanding amounts that IRC owes to ICBC under the Project Finance Facility (US$234m as at 31 December 2017), the assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is a key element of the Group's overall going concern assessment.
 	
Following the successful issuance of the Notes, the Group is satisfied that it has sufficient headroom under a base case scenario for the period to April 2019. However, the Group's projections under a layered stress case that is based on a gold price, which is 10% lower than the mean of the market consensus forecasts, indicate that unless mitigating actions can be taken, there will be insufficient liquidity under a layered stress case for the relevant period to April 2019.
 	
Further IRC's projections demonstrate that although IRC expects to have sufficient working capital liquidity over the next 12 months, unless mitigating actions can be taken there will be insufficient liquidity to meet the debt repayment schedule and non-compliance with certain financial covenants for the period to April 2019. In this respect management of the Company and IRC has approached ICBC to request an amendment of the repayment schedule and obtain waivers in respect of obligations to comply with certain financial covenants. Management is also in active discussions regarding the full refinancing of the ICBC facility with an alternative lender.
 	
In addition to the twelve month going concern consideration the Directors assessed the Company's prospects over the longer term, specifically addressing a period of five years as part of the overall viability statement. The viability statement can be found on page 139.
	The Committee has addressed this matter through:
	– reviewing a paper from management on the going concern assessment, challenging the key assumptions used for both the base case and the reasonable downside scenarios, in particular in relation to production, gold price and the Russian Rouble US Dollar exchange rate;
	– considering the mitigating actions proposed by management in the event of a reasonable downside scenario;
	– with regards to IRC maintaining regular dialogue with the IRC Board and its Executive Directors in respect of:
	  – the status of its progress to refinance and/or restructure its debt with ICBC and obtain new equity investors;
	  – the ongoing active discussions by management of the Company and IRC with an alternative lender; and
	  – the K&S facility and when it expects to achieve full production.
	– reviewing options to resolve the IRC guarantee; and
	– progressing the appointment of a nominee Director on the Board of IRC.
		The risk that the ICBC refinancing is not completed or alternative contingency plans are not realised represents a material uncertainty which may cast significant doubt upon the Group's ability to continue to apply the going concern basis of accounting.
		
		However, following careful review the Committee has a reasonable expectation, after taking into account the above mentioned factors that the Group will have sufficient working capital liquidity to continue in operational existence for the foreseeable future and accordingly, the going concern basis is the appropriate basis of preparation for the 2017 financial statements.
		The Committee has advised the Board accordingly.

Issue	Committee action	Conclusion
Carrying value of mining assets including POX (see note 12 to the financial statements) The carrying value of the Group's mining assets which includes the tangible assets attributable to the gold mining projects and the supporting in house service companies remains particularly sensitive to the forecast long term gold price, the Russian Rouble US Dollar exchange rate, and the forecast future cash flows for Pioneer and Malomir which assume the POX Hub's completion. Consequently, the assessment of the carrying value of the Group's mining assets and whether an impairment or reversal of impairment is necessary requires significant judgement.	The Committee has addressed this issue through: – receiving reports from management outlining the basis for the assumptions used, including assumptions on gold price, the discount rate used for the projects and the Russian Rouble US Dollar exchange rate, and understanding and challenging these assumptions; – receiving regular updates on the construction of the POX Hub; – noting the Group's Gold Ore Reserves and Mineral Resources estimated as at 31 December 2017, prepared by the Group's Competent Person in accordance with the JORC Code; – reviewing the report prepared by Venmyn, mining experts, engaged by Deloitte to assist them in their assessment of this issue. As part of their review Venmyn again visited the Group's principal mines; and – discussing with the external auditor their view on the impairment testing procedure including the key assumptions used by management.	Taking the above into account the Committee is satisfied with the thoroughness of the approach and judgements taken. The Committee agreed with the conclusion of management that no impairment or reversal of the impairment recognised in 2013 was required. No impairments or reversals of impairments have been recognised at 31 December 2017.

Accounting for the investment in Associate
In addition the Committee considered the partial reversal of previously recognised impairment losses by the Company's associate, IRC Ltd at its K&S mine of c.US$130m in its 2017 financial statements. In accordance with the requirements of IAS28 'Investments in associates' and subsequently testing for impairment the Company has included c.US$40m in the Group's share of the results of IRC.

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

Whilst recognising that all members of the Committee have only been members of the Committee and Directors of the Company for 9 months, the Committee has evaluated the effectiveness of the external auditor by taking the following actions. In addition, the Committee has met regularly with the external auditor who also undertook the review of the Company's 2017 interim results. The Committee considers that, on this basis, Deloitte remains effective in their role as external auditor.

– Deloitte's proposed audit fee for the 2017 interim and year-end audits and after consideration recommending these to the Board for approval

– The non-audit fees payable to Deloitte, having regard to the policy on the provision of non-audit services (see page below for further discussion on this matter)

– Deloitte's publication entitled 'Briefing on audit matters' which explains the key concepts behind the Deloitte Audit methodology including audit objectives and materiality

– Deloitte's "2017 Audit Transparency Report' in respect of the year ended 31 May 2017. This sets out Deloitte's approach to ensuring audit quality, robust governance and ethics, by reference to the Professional Oversight Board of the Financial Reporting Council.

– The confirmation from Deloitte that they remain independent and objective within the context of applicable professional standards.

– The deep knowledge of the Company which enhances Deloitte's ability to perform as external auditor.

The Committee has recommended to the Board that Deloitte be appointed as external auditor and a resolution will be proposed to this effect at the 2018 Annual General Meeting.

Although the Committee is recommending Deloitte's appointment as external auditor, the Committee still intends to consider tendering the 2018 audit. Under the provisions on audit tendering, the Committee will be required to tender the audit prior to 2019.

Non-audit services
The majority of non-audit fees paid to Deloitte were in respect of:

– their engagement as reporting accountant on the issuance of the Notes. The appointment of Deloitte was approved by the Audit Committee and an independent review partner was involved. In addition the fees were not considered as being sufficiently high in the wider context of Deloitte to impact their independence; and

– their appointment for the review of the Company's financial statement for the six months' ended 30 June 2017. This is considered as standard practice for a listed company. Approval was given by the Audit Committee.

Deloitte's engagement on the above matters was undertaken in accordance with the Company's policy on the provision of audit and non-audit services, a copy of which can be located on the Company's website or obtained from the Company Secretary. The Committee approved the appointment on the basis that it was in accordance with the Company's policy and that Deloitte would be the most appropriate firm to work on the issue of the Notes within the time available and for a reasonable fee given their detailed knowledge of the Group. This work is typically performed by a company's external auditor. Accordingly, in the opinion of the Committee, the independence and objectivity of Deloitte as external auditor to the Company, has not been impaired by their work in this respect.

A breakdown of non-audit fees paid in 2017 is set out in note 7 on page 169 of this Report.

Assurance – financial and internal controls and risk management
The Committee operates within the following assurance framework established by the Board. The Board has delegated authority to the HSE and Executive Committees in addition to the Audit Committee, details of which are as follows.

- The Board (which receives advice from the Audit, HSE and Executive Committees) has overall responsibility for the system of internal control and risk management in the Group. On behalf of the Board the Committee has considered the effectiveness of the Group's system of internal control. Following this review the Committee considers the internal controls of the Group to have operated effectively throughout 2017 and up to the date of this report. The Committee has also considered and reviewed the Group's financial risks and the mitigating action being taken to address these and has reported its findings to the Board. The system of controls is designed to manage, but may not eliminate, the risks of failure to achieve the Group's objectives. Oversight is provided by the Executive Committee, that reviews 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. IRC ceased to be a subsidiary of the Company and became an associate on 7 August 2015.

Some key features of the internal control system, not detailed above, are:

- a defined management structure with clear accountabilities. There is a clear defined delegation of authorities, which covers all expenditure;
- board approval of a detailed annual budget, with monthly re-forecasts being made subsequently;
- formal review by members of the Executive Committee of detailed management accounts including variance analysis against the approved annual budget, a copy of which is provided to the Board following this review;
- appropriate segregation of duties throughout the Group, in particular separating the purchasing and ordering function from the processing and payments function;
- a centrally directed treasury function which manages the Company's cash and debt on a daily basis; and
- specific approval procedures have been established for approval of all related party transactions. A Committee of Independent Non-Executive Directors approves all significant related party transactions as appropriate and a schedule of all of these transactions is presented to the Board for formal approval.

Risk management
The Company has adopted a formal risk management framework with the Board having ultimate responsibility for setting the Group's risk appetite and the Executive Committee having responsibility for on-going risk review and management. The Committee retains responsibility for reviewing financial risks and reporting its findings and recommendations to the Board. The Risks to Our Performance section, summaries the risk management framework together with details of the principal risks of the Group and is on pages 18 to 31 of this Report.

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

Directors' Remuneration Report

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

Remuneration highlights:

2017

- Inflationary salary increase of c.1.3% awarded to the Chief Financial Officer for the year commencing 1 January 2017 with no salary increase for the Executive Chairman or Chief Executive Officer.
- Non-Executive Directors' fees unchanged for 2017.
- Performance against targets for 2017, relating to the satisfaction of strategic and operational objectives, resulted in a bonus payable of 25% of salary for both the Interim Chief Executive Officer and the Chief Financial Officer; for the Interim Chief Executive Officer 50% of the bonus will be awarded in the form of a Deferred Bonus Award, and 50% will be paid in cash.
- An additional bonus of 25% of salary was awarded to the Chief Financial Officer to reflect his significant contribution to the successful issuance, in November 2017, of the Group's US$500m 8.125% Guaranteed Notes due 2022' (the 'Notes').
- No performance share awards were granted under the Long-Term Incentive Plan ('LTIP') during 2017 due to the change in the membership of the Committee and the resignation of Dr Pavel Maslovskiy, Chief Executive Officer on 17 July 2017.
- The Company's Remuneration Policy (the 'Policy') was amended for:
  - the introduction of a two-year post-vesting holding period for LTIP awards from 2017 onwards;
  - malus and clawback provisions were strengthened; and
  - bonus payable for achieving target was reduced from 60% to 50% of maximum.
- The revised Policy received shareholder support of more than 96% at the 2017 Annual General Meeting.

2018 to date and proposed

- No salary increase awarded to the Chief Financial Officer for the year commencing 1 January 2018.
- Salary and terms and conditions of new Chief Executive Officer approved by the Committee. Shareholder approval to be sought at the 2018 Annual General Meeting for changes in the Policy to reflect the CEO appointment. The Interim Chief Executive Officer will revert to his former role as General Director, MC Petropavlovsk.
- Non-Executive Directors' fees unchanged for 2018.

Dear Shareholder

Introduction
On behalf of the Board I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2017.

I was appointed by the Board to act as Senior Independent Director and Committee Chair on 22 June 2017. This followed the approval by shareholders of my appointment as a Director on the same date. Mr Ian Ashby, the Company's Non-Executive Chairman and Mr Garrett Soden, Independent Non-Executive Director, were also appointed as members of the Committee on 22 June 2017 immediately following their appointment as Directors of the Company.

The Committee spent time during the latter half of 2017 reviewing the Company's remuneration arrangements. I have met separately with the Committee's remuneration advisors, who have supported the Committee on a review of the current remuneration structure. We have considered best practice arrangements and engaged our advisors to undertake a benchmarking exercise of the remuneration paid to the Chairman, the Executive Directors, members of the Company's Executive Committee and the Company Secretary to ensure that these are aligned with our peer group given our Company size and the complexity of our operations.

The Committee's review of our remuneration arrangements and our Remuneration Policy is ongoing. The Committee will consult with the Company's shareholders in advance of any significant changes to the Policy, as appropriate.

2017 annual bonus
For 2017, the annual bonus performance conditions were linked to the Group's operational performance and strategic initiatives. 40% of the bonus was linked to the achievement of strategic objectives including in relation to the construction of the POX Hub and the progress of the underground mining project, the success of these projects being critical to the future of the Group. 20% related to each of production and a reduction in average all-in-sustaining costs◆ per ounce, with 10% related to the improvement of the Group's Net Debt◆ to EBITDA◆ ratio. Given the inherent health and safety risks within our business, 10% of the bonus was based on a Lost-Time Injury Frequency rate target.

Based on the significant progress made on the construction of the POX Hub, as detailed in the Strategic Report, and production of c.439,600oz of gold the Committee awarded an annual bonus of 25% of salary to Mr Sergey Ermolenko, the Interim Chief Executive Officer, and Mr Andrey Maruta, the Chief Financial Officer, for performance against the bonus scorecard. For the Interim Chief Executive Officer, 50% of the bonus payable will be awarded in the form of a Deferred Bonus Award, vesting after one year. This conserves the Group's cash whilst acting as a retention tool.

In the late summer and early autumn of 2017 Mr Maruta and the Board engaged in a series of discussions over a number of weeks regarding his prospects and future with the Company. The Board indicated that, although they had been acquainted with Mr Maruta only for several months, they considered he was performing strongly in his role and was providing excellent support to the new Board members in fulfilling their duties. At that time, the Board considered that Mr Maruta was essential in leading the refinancing of the Company's bank debt and Mr Maruta would be eligible for an additional bonus of up to 25% of salary if he led the Company's team to a successful conclusion of the refinancing in 2017.

The Committee has awarded Mr Maruta a bonus of 50% of base salary, with the additional 25% of base salary paid to reflect his significant contribution to the successful issuance of the Notes. The funds from the issue of the Notes have been used to repay loans provided pursuant to banking facilities with Sberbank and VTB Bank. This has provided medium term financial stability for the Company and flexibility for the Group's operations. The Committee has considered the payment of Mr Maruta's bonus in light of his decision to resign as Chief Financial Officer on 31 March 2018. Taking into account discussions between Mr Maruta and the Board, as detailed above, and given that Mr Maruta will continue in a consultancy capacity for a period of 4 months and assist the Company whilst it is in the process of recruiting a new Chief Financial Officer and during handover, the Committee agreed that Mr Maruta shold be treated as a good leaver for incentive purposes. For these reasons and as permitted under the Policy, the Committee has approved the payment of the bonus. For the same reasons, the Committee agreed that Mr Maruta's outstanding Deferred Bonus

◆ Go to pages 197 to 203 for more information on our APMs.

Directors' Remuneration Report continued

Award (relating to his 2016 bonus) should vest to him on a time pro-rata basis as soon as practicable after the cessation of his employment.

Further details of the 2017 annual bonus scheme and the performance against objectives are provided on pages 126 and 127.

Amendments to the Remuneration Policy
The Company's search for a new Chief Executive Officer commenced formally in autumn 2017 with the retention of a specialist executive search firm. During the course of the process, as short-listed candidates were identified and being interviewed, a substantial block of the Company's shares was sold by one major shareholder. On the advice of the specialist search firm, which was based on discussions with short-listed candidates, the Board agreed, subject to approval of a revised Policy by our shareholders, that some modest protection should be provided to the incoming Chief Executive Officer if a change of control of the Company occurred in the reasonably near future.

As previously announced, Mr Roman Deniskin will be joining the Board as Chief Executive Officer in April 2018. His employment terms are described on pages 121 and 129 and are the same as detailed in the current Policy except for the inclusion of a clause in his contract which provides him with an entitlement, in the event of a change of control within the first 24 months of his employment, to give notice within three months of the date of change of control to terminate his employment and receive, within one month, a sum equal to six months' basic salary. No additional sum in lieu of notice would be payable. Further, Mr Deniskin's contract provides for a shorter notice period of six months' from either the Company or Mr Deniskin in the event of termination of his employment, instead of the 12 months' notice period permitted under the existing Policy. The Committee also proposes to amend the Policy to include the flexibility to provide similar protection in the event of a change of control to an incoming Chief Financial Officer, as appropriate.

The Committee has also taken the opportunity to clarify the clawback provisions in the Policy to reflect any restrictions by local legislation on the application of clawback.

At the 2018 Annual General Meeting to be held on 21 June 2018 (the '2018 AGM'), the Board will be seeking shareholder approval for a revised Policy, with the only changes being those stated above.

The Committee trusts that shareholders will understand the reasons for the proposed changes to the Policy. I and my colleagues on the Committee are available to answer any questions or address any concerns you may have. If you wish discuss further this or any other issue, please email the Company Secretary, Amanda Whalley, at aw@petropavlovsk.net and she will make the necessary arrangements.

Other decisions
The Committee negotiated the severance arrangements for Mr Peter Hambro, the Company's former Executive Chairman, who was not re-elected by shareholders at the 2017 AGM. Details of these arrangements, which are in accordance with the Policy approved by shareholders on 22 June 2017, are provided on page 128.

Implementation of the Remuneration Policy in 2018
The Committee recognises that no award has been made under the Long-Term Incentive Plan, with the exception of Deferred Bonus Awards, since 2011. The current Committee, which as stated above was newly formed in June 2017, has already commenced a review of the LTIP with a view to making awards under the Plan following the appointment of Roman Deniskin as Chief Executive Officer on 16 April 2018. The Committee will consult with shareholders as appropriate with regards to the performance conditions to be attached to these awards.

I will be in attendance at the Company's 2018 AGM and I will be pleased to discuss any remuneration matters with you.

Bruce Buck
Remuneration Committee Chairman
27 March 2018

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 2017.

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

The current Remuneration Policy (the 'Policy') was approved at the 2017 AGM, receiving more than 96% support from shareholders. However as detailed in the letter from the Committee Chairman, changes are being proposed to this Policy. The revised Policy will be put to shareholders for approval in a binding vote at the 2018 AGM. If approved, the revised Policy will take effect from the date of the 2018 AGM. The Committee's current intention is that the revised Policy will operate for the two year period to the AGM in 2020 unless the Committee recommends changes as a result of its current review of the Policy.

The Statement from the Chairman of the Remuneration Committee (set out on pages 115 and 116) and the Annual Report on Remuneration (set out on pages 124 to 132) will be subject to an advisory vote at the 2018 AGM.

Summary of Policy changes
The main changes to the Remuneration Policy, from the Policy approved by Shareholders at the 2017 AGM, are as described in the Chairman's letter and are as follows:

- Approach to recruitment and promotion: The inclusion of an additional clause in the service agreement of Mr Roman Deniskin who will be appointed as Chief Executive Officer on 16 April 2018 to provide for some modest protection in the event of a change of control within the first 24 months of his appointment. The Policy is also amended to include the flexibility to apply the same clause for an incoming Chief Financial Officer, as appropriate.
- Mr Deniskin's service agreement provides for a six month' notice period from either the Company or Mr Deniskin in the event of termination of his employment instead of the 12 month' notice period permitted under the existing Policy approved by shareholders on 22 June 2017.
- Given the international nature of our business, the Company's ability to operate and/or enforce certain provisions and remuneration arrangements such as the malus and clawback provisions may be restricted by relevant local laws.

Remuneration policy report

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

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

Remuneration element	**Base salary**
Purpose and link to strategy	To provide a market-competitive level of guaranteed cash earnings in order to attract and retain high-calibre Executive Directors to manage and execute the Board's strategic plans.
Operation	The Committee reviews base salaries annually. Salary increases typically take effect from 1 January each year, unless there is a significant change in the responsibilities of the role. Reviews take account of: – the individual performance of the Executive Director, his or her experience, skills and potential; – the challenges intrinsic to that individual's role; – market-competitiveness within the Group's sector; – salary increases across the wider employee population; and – the wider pay environment. Whilst the obligation of the Company is in Sterling, the Executive Directors may receive a proportion of their pay in Russian Roubles or US Dollars.
Maximum opportunity	There is no prescribed maximum salary. It is generally expected that increases will be no higher than inflation, though the Committee has discretion to apply a higher increase in exceptional circumstances, e.g. significant increase in role size or complexity, promotion, exceptional performance or any other factors the Committee considers relevant within the context of the Group's overall policy.
Performance metrics	Not applicable, although the individual's contribution and overall performance is one of the considerations in determining the level of any salary increase.
Remuneration element	**Benefits**
Purpose and link to strategy	To provide market-competitive benefits in order to enable the Company to retain and attract high calibre Executive Directors to manage and execute the Board's strategic plans.
Operation	Benefits may include (but are not limited to): – private medical insurance for the individual and family; – life assurance up to 4x salary, subject to underwriting; – ill-health income protection; and – travel insurance whilst on Company business.
Maximum opportunity	The cost of these benefits to the Company is dependent upon market rates and availability of the respective benefits.
Performance metrics	Not applicable.
Remuneration element	**Pension**
Purpose and link to strategy	To provide market-competitive pension benefits in line with the wider workforce whilst ensuring no undefined liability for the Company.
Operation	Executive Directors may receive contributions from the Company into a personal pension plan or similar savings vehicle.

Maximum opportunity	A Company contribution of up to 12.5% of salary, depending on length of service, is made to a personal pension arrangement with a minimum contribution from the Executive Directors of 3%. Cash in lieu of pension may also be made by way of a salary supplement, or a combination of both. These arrangements depend on the individual circumstance and residence of the Executive Director concerned.
Performance metrics	Not applicable.
Remuneration element	**Annual Bonus**
Purpose and link to strategy	To ensure a focus on and provide a financial incentive for the delivery of the annual budget and other short term financial and strategic imperatives.
Operation	Annual performance targets are set by the Committee at the beginning of the year, with the bonus payable determined by the Committee after the year end, based on achievement against pre-determined targets. Bonus payments, in part or in full, may be awarded in the form of Deferred Bonus Awards, i.e. deferred in shares which vest after one year. The Committee retains the discretion to allow dividends (or equivalent) to accrue over the vesting period in respect of the awards that vest. Malus and clawback provisions may be applied for up to a period of two years' post-payment in exceptional circumstances, including but not limited to material misconduct, material misstatement of the results, a calculation error and/or poor information when calculating the reward outcome. Please also refer to Note 1 on page 119.
Maximum opportunity	Maximum bonus opportunity is 100% of salary. For target level performance, the bonus earned is 50% of maximum.
Performance metrics	Performance is assessed against a range of strategically important measures which may vary each year depending upon the annual priorities of the Group. 100% of the bonus is currently linked to the achievement of Group bonus objectives. These are set by the Committee and may include measures such as: – health and safety; – annual gold production; – Total Cash Costs◆; – All-in Sustaining Costs◆; – Net Debt◆; – free cashflow; – delivery of Capital Expenditure◆ projects on time and within budget; and – exploration success. Details of the measures applicable for the financial year under review are provided in the Annual Report on Remuneration. The bonus scheme is not a contractual entitlement and the bonus is payable at the discretion of and subject to the approval of the Remuneration Committee. The Committee may take into consideration the overall relative success of the Group when adjudicating bonus payments. The Committee may also include a discretionary underpin in the annual bonus plan to capture material adverse events, e.g. material events relating to health and safety.

◆ Go to pages 197 to 203 for more information on our APMs.

Remuneration element	Long term Incentive Plan ("LTIP")
Purpose and link to strategy	To reinforce effective risk management by aligning Executive Directors' interests with the long term interests of shareholders through regular awards of performance shares vesting only on the satisfaction of challenging long-term performance conditions.
Operation	Awards of performance shares are made which are based on performance over a minimum of three years. Awards vest on no earlier than the third anniversary of grant subject to (i) the satisfaction of performance targets and (ii) continued service. There is no opportunity to retest the performance conditions. The Committee retains the discretion to allow dividends (or equivalent) to accrue over the vesting period in respect of the awards that vest. A two-year post-vesting holding period will apply to awards. Vested shares may not be sold during the holding period except to cover tax liabilities.
Maximum opportunity	The maximum annual award is 100% of salary. However, in exceptional circumstances, such as to facilitate the recruitment of an external hire, this may be exceeded to a maximum of 200% of salary. Threshold performance will result in vesting of no more than 30% of the award.
Performance metrics	The Committee will regularly review the performance conditions and targets to ensure that they are aligned to the Group's strategy and that they are sufficiently challenging. The relevant metrics and the respective weightings may vary each year based upon the Company's strategic priorities. Details of the measures, weightings and performance targets used for specific LTIP grants are included in the Annual Report on Remuneration as relevant. The Committee may scale back the level of vesting of an award if it considers underlying operational or financial performance over the performance period has been significantly worse than the level of vesting would otherwise indicate. Malus and clawback provisions may be applied for up to a period of two years post-vesting in exceptional circumstances, including but not limited to material misconduct, material misstatement of the results, a calculation error and/or poor information when calculating the reward outcome. Please also refer to Note 1 below.

Note 1: Given the international nature of the Group's business, the Company's ability to operate and/or enforce certain provisions and remuneration arrangements such as the malus and clawback provisions may be restricted by relevant local laws.

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

Explanation of performance metrics chosen

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

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

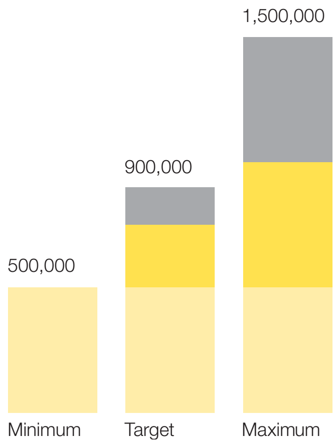
The Committee retains the discretion to adjust the performance targets and measures where it considers it appropriate to do so (for example, to reflect changes in the structure of the business and to assess performance on a fair and consistent basis from year to year).

Remuneration Policy for other employees

A large percentage of the Group's employees are based at the Group's mines in the Amur Region in the Far East of Russia, whilst corporate, administrative and support staff are based at the Group's offices in Blagoveshchensk, Moscow and London. The Board aims to ensure that employees are paid competitively within the region. Employees based at the Group's mines receive base salary, shift and production related bonuses where applicable to their role, together with certain benefits.

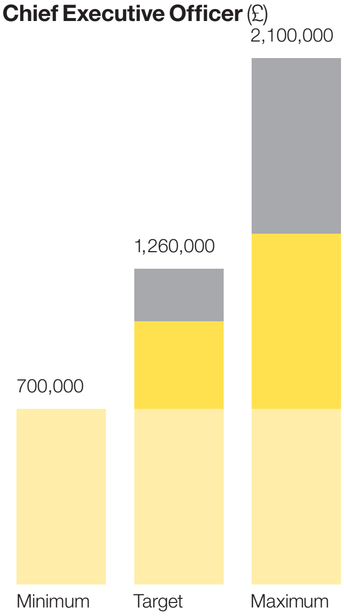
Executive Committee members and selected employees in London, Moscow and Blagoveshchensk also participate in the Company's annual bonus scheme. Executive Committee members and a number of senior employees, principally based within Russia, participated in the last LTIP cycle and received awards in 2011. It is the intention that any future LTIP awards will be granted to senior

Interim Chief Executive Officer (£)



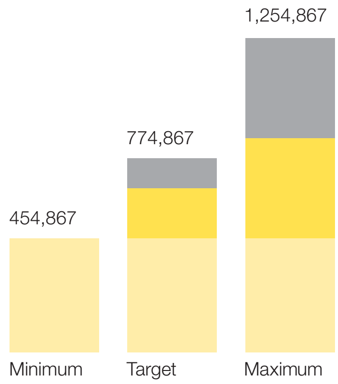
	Minimum	Target	Maximum
Salary	100%	55.6%	33.3%
Annual bonus	0%	27.8%	33.3%
LTIP	0%	16.7%	33.3%

Incoming Chief Executive Officer (£)



	Minimum	Target	Maximum
Salary	100%	52.6%	33.3%
Annual bonus	0%	31.6%	33.3%
LTIP	0%	15.8%	33.3%

Chief Financial Officer (£)



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

% of remuneration

Key
- LTIP
- Annual bonus
- Salary

Assumptions:
Minimum = base salary, benefits and pension where applicable (i.e. fixed remuneration only). Base salary only has been used for the Incoming Chief Executive Officer as the cost of providing benefits, including healthcare and life assurance is not known. This will be obtained at market rates.

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

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

employees in order that they have the opportunity to share in the Group's success, aligning their interest with those of the Executive Directors and shareholders. LTIP performance conditions are the same for all participants, while award sizes vary accordingly to level of seniority.

The key difference between Executive Directors' and Executive Committee members' remuneration and that of other employees is that, overall, the Remuneration Policy for these groups is more heavily weighted towards variable pay.

The Company does not have an all employee share ownership plan and does not consider that such a plan would be appropriate given that share ownership is not a common concept within Russia. The Board believes it more appropriate and beneficial to the general workforce to reward employees below senior employee level with bonus payments, based on the achievement of targets that are relevant to their positions and which they can influence.

Shareholding guidelines
There is no formal requirement for Executive Directors to own shares in the Company. Shareholding guidelines had not previously been considered as equitable given that there have been no LTIP performance share awards since 2011. In addition Mr Peter Hambro and Dr Pavel Maslovskiy, the former Executive Chairman and Chief Executive Officer who departed the Board on 22 June 2017 and 17 July 2017 respectively, had significant shareholdings in the Company given their status as original founders of the Company.

The Committee has recently reviewed this matter. However given that Mr Roman Deniskin will be appointed as Chief Executive Officer on 16 April 2018 and the Company is currently progressing the recruitment of a new Chief Financial Officer the introduction of shareholding guidelines is not thought to be appropriate at this time.

The Committee will continue to monitor market trends with respect to minimum shareholding guidelines for the Executive Directors.

Illustrations of pay for performance
Under the Company's Policy a significant proportion of remuneration received by Executive Directors is dependent on Company performance. The graphs above illustrate how the total remuneration opportunities for the Executive Directors vary under three different performance scenarios: minimum, target and maximum. Potential remuneration opportunities are based on the proposed Remuneration Policy, applied to salaries as at 1 January 2018 (or on appointment, in the case of the incoming Chief Executive Officer): £700,000 for the incoming Chief Executive Officer, £500,000 for the Interim Chief

Executive Officer, and £400,000 for the Chief Financial Officer. The graphs have been prepared on the basis that LTIP Awards will be granted during 2018. Note that the graph excludes any future share price movements.

Approach to recruitment and promotion
The Committee's policy is to set pay for new Executive Directors within the existing Remuneration Policy in order to provide internal consistency. The Committee aims to ensure that the Company pays no more than is necessary to appoint individuals of an appropriate calibre.

Remuneration Element	Policy
Base salary	Salary for a new hire (or on promotion to Executive Director) would be set at a level sufficient to attract the best candidate available to fill the role, taking into account the Group's position and strategy, market conditions and country of residence. The Committee would be prepared to set the salary of a new hire at a premium to those paid to the predecessor if this was necessary to attract and appoint a candidate with the requisite experience, seniority and calibre.
Benefits	Benefits will be set in accordance with the Remuneration Policy. In addition, where necessary, the Committee may approve the payment of relocation expenses to facilitate recruitment. Flexibility is retained to pay for legal fees and other costs incurred by the individual in relation to his or her appointment.
Pensions	A defined contribution or cash supplement up to 12.5% of salary subject to any particular considerations for a recruit who will be principally based outside of the UK.
Annual bonus	The annual bonus will operate in line with the Remuneration Policy save that the Committee reserves the discretion to apply the maximum bonus payable of 200% of base salary for the appointment of an Executive Director in the first year of his or her appointment, if this is considered necessary to recruit the preferred candidate. Depending on the timing of the appointment and responsibilities of the appointee, it may be necessary to set different performance measures and targets initially.
Long term incentives	LTIP awards will be granted in line with the Remuneration Policy. An award may (and would usually) be made upon appointment, subject to the Company not being prohibited from doing so. For an internal hire, existing awards would typically continue over their original vesting period and remain subject to their original terms; further awards may also be considered. The maximum award for a new hire (or on promotion to Executive Director) is 200% of salary.

In addition, in the case of an external hire, the Committee may offer additional cash and/or share-based elements when it considers these to be in the best interests of the Company (and therefore shareholders) to facilitate the buy-out of value forfeit on joining the Company. Such payments would take account of remuneration relinquished when leaving a former employer and would reflect (as far as possible) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Any such buy out would not have a fair value higher than that of awards forfeited. The Committee will use the components of the Remuneration Policy when suitable but may also avail itself of Rule 9.4.2 of the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.

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

Executive Director service contracts
Executive Directors have service contracts with the Company which provide for a twelve month notice period, from both the Company and the Executive Director. The service contract for the incoming Chief Executive Officer, Mr Roman Deniskin provides for a six-month notice period, from both the Company and Mr Deniskin.

Mr Deniskin's service contract also includes a change of control provision. In the event that there is a change of control within 24 months of Mr Deniskin's commencement date, he will be entitled to give notice to terminate his employment within 3 months of the date of the change of control and receive within one month, a sum equal to six months' basic salary. No additional sum in lieu of notice would be payable. In this instance change of control means the date on which (a) any person obtains Control of the Company as a result of making a general offer to acquire the whole of the issued share capital of the Company (which is made on the condition that the person making such offer will acquire Control), and for this purpose, a person shall be deemed to have obtained Control if he and others acting in concert with him have obtained Control; or (b) the Court sanctions a compromise or arrangement pursuant to section 899 of the Companies Act which will result in a person obtaining Control of the Company; or (c) the date on which any person becomes entitled to acquire shares of the Company pursuant to sections 979 and 980 of the Companies Act 2006. For these purposes Control shall have the meaning given to it by section 995 of the Income Tax Act 2007. The Remuneration Committee also has the flexibility to include the same change of control clause in the service contract for an incoming Chief Financial Officer, as appropriate.

If the Company terminates the employment of an Executive Director with immediate effect, in the absence of a breach of the service agreement by the Director, a payment in lieu of notice may be made. This may include base salary, pension and benefits. Benefits may also include, but are not limited to, legal fees.

Executive Directors' service contracts may be terminated without notice for certain events, such as gross misconduct. No payment or compensation beyond sums accrued up to the date of termination will be made if such an event occurs.

The Committee will retain discretion to approve new contractual arrangements with departing Executive Directors including settlement, confidentiality agreements, providing the provision of outplacement services, agreement of restrictive covenants and consultancy arrangements. The Committee will use its discretion in this respect sparingly and will enter into such arrangements only where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

Dates of Executive Director service contracts are as follows:

Executive Director	Position	Effective date of contract
Sergey Ermolenko	Interim Chief Executive Officer	18 July 2017
Andrey Maruta	Chief Financial Officer	4 January 2011

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

Annual bonus
Any annual bonus payment will be at the discretion of the Committee and the decision to award a bonus, in full or in part, will depend on a number of factors including the circumstances of the individual's departure and their contribution to the Group during the bonus period in question. Any bonus amount paid will typically be pro-rated for time in service to termination and will, subject to performance, be paid at the usual time.

For good leavers (defined as death, injury, ill-health, disability, retirement with agreement of the Committee, the employing company or business being sold out of the Group, or any other reason that the Committee determines appropriate), unvested Deferred Bonus Awards will vest on such date as determined by the Committee subject to a pro-rata reduction to reflect the proportion of the vesting period remaining. For all other leavers, awards will lapse.

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

LTIP awards
For good leavers (defined as death, injury, ill-health, disability, retirement with agreement of the Committee, the employing company or business being sold out of the Group, or any other reason that the Committee determines appropriate), unvested LTIP awards will vest on such date as determined by the Committee, subject to the achievement, or likely achievement, of any relevant performance conditions, with a pro-rata reduction to reflect the proportion of the vesting period remaining. For all other leavers, awards will lapse.

On a change of control or similar transaction event, unvested LTIP awards will typically vest on the date of the change of control, subject to the achievement or likely achievement of any relevant performance conditions with a pro-rata reduction to reflect the proportion of the vesting period remaining.

Remuneration Policy for Non-Executive Directors
Non-Executive Directors do not receive benefits from the Company and they are not eligible to receive pension contributions or participate in any bonus or incentive plan. Any reasonable expenses that they incur in the deliverance of their duties are reimbursed by the Company.

Details of the Policy on Non-Executive Director fees are set out in the table below.

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

In recruiting a new Non-Executive Director, the Board will use the Policy as set out in the table above.

Non-Executive Directors are appointed for an initial term of three years and have formal letters of appointment setting out their duties and responsibilities. The appointment can be terminated by paying in lieu of the notice period with such pay being limited to the Non-Executive Director's basic fees. Dates of Non-Executive Director appointments are as follows:

Name	Date of original appointment	Unexpired term as at 31 December 2017	Date of appointment/last reappointment at AGM	Notice period
Ian Ashby	22 June 2017	30 months	2017	3 months
Bruce M. Buck	22 June 2017	30 months	2017	3 months
Garrett Soden	22 June 2017	30 months	2017	3 months
Bektas Mukazhanov	8 February 2018	N/A	N/A	3 months
Adrian Coates	16 February 2018	N/A	N/A	3 months

Consideration of employment conditions elsewhere in the Company
The Committee may consider the level of salary increases that have been made to the Group's employees when considering salary increases for the Executive Directors and members of the Executive Committee, whilst taking into consideration the diverse nature of the roles, responsibilities, and geographic locations and economies of the Group's workforce. The Company does not currently actively consult with employees on executive remuneration.

Further information on the Group's employment policies are provided in the Sustainability report on pages 71 and 72 of this Annual Report.

How the views of shareholders are taken into account
The Committee considers shareholder feedback and comment from corporate governance bodies received in relation to the AGM each year. The Committee will take these comments into consideration when reviewing Remuneration Policy. The Committee will consult with its major shareholders in advance of making any material changes to remuneration.

Policy on external directorships
Executive Directors may accept an external non-executive appointment with the approval of the Board. Any fees earned are retained by the executive.

Annual Report on Remuneration

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 2017, and how the proposed Policy will be implemented in 2018. Any information contained in this section of the report that is subject to audit is highlighted.

The Remuneration Committee

Members	From	To	Number of meetings in 2017 - Attendance/Eligibility
Bruce M. Buck (Chairman)	22 June 2017	Present	2/2
Ian Ashby	22 June 2017	Present	2/2
Garrett Soden	22 June 2017	Present	2/2
Andrew Vickerman			
– Chairman	28 June 2016	22 June 2017	2/2
– Member	22 October 2015	22 June 2017	
Alexander Green	22 October 2015	22 June 2017	2/2

The Committee held four formal meetings during the year.

The principal role of the Committee is to recommend to the Board the framework and Policy for the remuneration of the Company's Chairman, the Executive Directors, any newly appointed Executive Director, the Company Secretary and members of the Executive Committee. In addition, and in consultation with the Chief Executive Officer as appropriate, the Committee is responsible for reviewing the total individual remuneration package of each Executive Director and for reviewing annual proposals for the Executive Committee members. The Committee's terms of reference are available on the Company's website at www.petropavlovsk.net.

Activities of the Committee during 2017
Key activities during the year included:

Decisions made prior to 22 June 2017:
Committee membership:
Mr Andrew Vickerman, Chairman,
Mr Alexander Green

- Review and approval of the 2016 annual bonus outcome, including proposed award of Deferred Bonus Awards.
- Review and approval of the 2017 annual bonus performance measures and targets.
- Review and approval of the 2016 Directors' Remuneration Report.
- Proposing changes to the Remuneration Policy for approval by shareholders at the 2017 AGM, including:
  - introduction of a two year post-vesting holding period for future awards made under the LTIP;
  - strengthening of malus and clawback provisions; and
  - reduction of the bonus payable for achieving target from 60% to 50% of maximum.

Decisions made post 22 June 2017:
Committee membership:
Mr Bruce Buck, Chairman,
Mr Ian Ashby
Mr Garrett Soden

- Review and approval of the termination arrangements for Mr Peter Hambro, Executive Chairman who departed the Company on 22 June 2017.
- Initial review of the Company's long-term incentive arrangements.
- Review of base salary for Mr Sergey Ermolenko, following his appointment as Interim Chief Executive Officer on 18 July 2017.
- Approval of Dr Pavel Maslovskiy's consultancy arrangements with the Company for the period 1 August 2017 to 31 January 2018 following his resignation as Chief Executive Officer on 17 July 2017.
- Review of Executive Directors' and Executive Committee members' total remuneration benchmarked against the Company's peer group, including the review of Executive Directors' salaries for 2018.

External advisors
In carrying out its responsibilities, the Committee is independently advised by external advisers.

Mercer Kepler (part of the MMC group of companies), independent remuneration consultants appointed by the Committee after consultation with the Board, continued to act as the remuneration adviser to the Committee during the year. Mercer Kepler provides advice on remuneration for executives, benchmarking analysis, regular market and best practice updates, and support with drafting of the Directors' Remuneration Report. In 2017, Mercer Kepler also provided support in finalising the revised Remuneration Policy which was approved by shareholders on 22 June 2017.

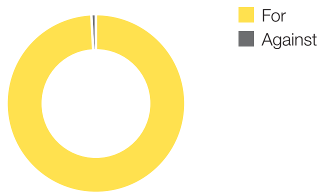
Mercer Kepler is a signatory to the Code of Conduct for Remuneration Consultants of UK-listed companies (which can be found at www.remunerationconsultantsgroup.com).

Mercer Kepler reports directly to the Committee Chairman and neither Mercer Kepler nor any other part of the MMC group of companies provides any other services to the Company, with the exception that Marsh Ltd has been appointed as insurance broker for some of the Group's UK and global policies and Mercer Marsh Benefits has been appointed as broker for the private medical healthcare scheme and life assurance scheme for the Company's UK based employees.

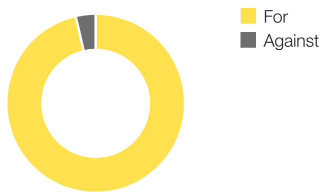
Mercer Kepler's total fees for the provision of remuneration services to the Committee in 2017 were £26,250 on the basis of time and materials, excluding expenses and VAT.

In addition the Committee received external legal advice from Norton Rose Fulbright LLP including on amendments to the Rules of the Company's Long-Term Incentive Plan, matters relating to the resignation of Dr Pavel Maslovskiy as Chief Executive Officer and termination arrangements for Mr Peter Hambro who retired as Executive Chairman on 22 June 2017. Fees in this respect totalled £51,734 on the basis of time, excluding expenses and VAT.

Annual Report on Remuneration vote



Remuneration Policy vote



Shareholder voting at the 2017 AGM

The table below sets out the results of the votes on the 2017 Annual Report on Remuneration and the Directors' Remuneration Policy at the 2017 Annual General Meeting.

Annual Report on Remuneration vote

	Annual Report on Remuneration	
	Total number of votes	% of votes cast
Votes for	2,466,777,101	99.45%
Votes against	13,682,206	0.55%
Total votes cast	2,480,459,307	
Votes withheld	2,842,823	

Remuneration Policy vote

	Annual Report on Remuneration	
	Total number of votes	% of votes cast
Votes for	2,392,541,301	96.40%
Votes against	89,330,313	3.60%
Total votes cast	2,481,871,614	
Votes withheld	1,430,516	

The above resolutions were passed on a poll.

As in previous years and as required by law, details of the voting on all resolutions at the 2018 Annual General Meeting will be announced via a regulatory news service and posted on the Petropavlovsk website following the 2018 Annual General Meeting.

Directors' Remuneration Report continued

Executive Directors
The remuneration received by Executive Directors in respect of the financial years ended 31 December 2017 and 31 December 2016 is set out below.

	Year	Salary & fees	Taxable Benefit[e]	Annual Bonus[b]	Pension	Other[d]	Single Figure Remuneration Total £	Single Figure Remuneration Total US$[g]
Executive Director								
Peter Hambro[a]	2017	350,273[b]	–	–	–	630,000	980,273	1,263,474
	2016	655,000	–	131,000	–	–	786,000	1,065,030
Pavel Maslovskiy[c]	2017	357,433		–		–	357,433	460,695
	2016	655,000	–	131,000	–	–	786,000	1,065,030
Sergey Ermolenko[d]	2017	227,151	–	56,788	–	–	283,939º	365,968
	2016	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Andrey Maruta	2017	400,000	4,867	200,000	50,000	–	654,867	844,058
	2016	395,000	12,958	79,000	49,375	–	536,333	726,731
Total	2017	1,334,857	4,867	256,788	50,000	630,000	2,276,512	2,934,195
Total	2016	1,705,000	12,958	341,000	49,375	–	2,108,333	2,856,791

(a) Mr Peter Hambro was not re-elected as a Director by shareholders at the Company's Annual General Meeting held on 22 June 2017 and consequently retired as a Director of the Company on that date. Pay in lieu of notice, as detailed on page 128 included:
- *A payment of £600,000 as compensation for failure by the Company to give notice of termination in accordance with Mr Hambro's Service Agreement.*
- *A lump sum payment of £30,000 as compensation for loss of office and termination of employment.*

(b) Salary includes a payment of £22,773 as payment in lieu of 9 days' annual leave accrued but untaken as at Mr Hambro's departure date of 22 June 2017.

(c) Dr Pavel Maslovskiy resigned as a Director and as Chief Executive Officer of the Company on 17 July 2017; the remuneration shown in the table relates to the period 1 January to 17 July 2017. Dr Maslovskiy continued as an employee of the Company until 31 July 2017. Dr Maslovskiy acted as a consultant of the Company from 1 August 2017 to 31 January 2018, continuing to assist on the POX Hub project and other operational matters, for which he received a fee of £54,583 per month. No further payments are due to Dr Maslovskiy.

(d) Mr Sergey Ermolenko was appointed as a Director and as Interim Chief Executive Officer of the Company on 18 July 2017; the remuneration in the table relates to the period 18 July to 31 December 2017.

(e) Benefits are in respect of private medical insurance for the Director, his spouse and any children under the age of 18.

(f) Value of annual bonus (including any Deferred Bonus Awards) awarded in respect of the corresponding performance year.

(g) Converted from GBP to US$ using the average exchange rate for the year. (2017: £0.776:US$1, 2016:£0.738:US$1).

Implementation of the Remuneration Policy in 2017

Executive Directors
Salary
Mr Andrey Maruta, Chief Financial Officer, was awarded an inflationary salary increase of c.1.3% effective from 1 January 2017. No salary increases were awarded to Dr Pavel Maslovskiy, Chief Executive Officer or Mr Peter Hambro, Executive Chairman during 2017.

Mr Sergey Ermolenko was appointed as Interim Chief Executive Officer on 18 July 2017, following the resignation of Dr Pavel Maslovskiy on 17 July 2017. Mr Ermolenko was the General Director of MC Petropavlovsk and a member of the Executive Committee prior to this appointment. Mr Ermolenko received a pro-rated annual salary of £500,000 p.a. from the date of his appointment on 18 July 2017 to 31 December 2017.

Pension
The Group made contributions into a personal pension scheme on behalf of Mr Andrey Maruta, Chief Financial Officer during 2017. A rate of 12.5% of base salary (paid partly as a pension contribution and partly as a taxable cash supplement) was payable in return for a minimum personal contribution of 3% on pension payments. Any cash payment was also made to Mr Maruta net of an amount equivalent to the amount of employer's national insurance contributions payable on the cash payment such that the Company is not disadvantaged by making the payment in cash rather than as a pension payment which is not subject to employer's national insurance. For the year ended 31 December 2017, the Group's pension contribution for Mr Maruta was £50,000. Mr Hambro, Dr Maslovskiy and Mr Ermolenko received no payment from the Company in respect of pension entitlements.

Annual bonus
For 2017, the annual bonus was based 40% on operational targets, 10% on financial results, 50% on strategic targets, and 10% on health and safety. The maximum bonus opportunity was 100% of salary, and target bonus was 50% of salary. The performance targets and actual achievement during the year, and the resulting bonus outcome, are set out in the following table.

Objective	Weighting (% of max)	Performance targets: Target	Performance targets: Stretch target	Actual outturn achieved	Bonus payable (% of max)
Operational					
Total Group production	20%	420,000oz	460,000oz	439,600oz	15%
Cash Costs – All-in-sustaining costs◆	20%	US$945oz	=/<US$855oz	US$963oz	0%
Health & Safety - LTIFR	10%	2.25	=/<2.0	3.11	0%
Financial					
Leveraged debt EBITDA/Net Debt◆	10%	2.5	2.0	>2.5	0%
Strategic					
Construction of POX	20%			See detail below	10%
Underground mining	20%	90% of budgeted ore mined	110% of budgeted ore mined	47%	0%
Total	**100%**				**25%**

Continuing construction of the POX Hub: Following the year-end, the Committee assessed the progress of the construction of the POX Hub, both in terms of timing of the project against schedule and Capital Expenditure◆ against budget. As stated in the Company's full year update announcement released on 30 January 2018, the construction of the POX Hub progressed as planned during 2017 and commissioning is expected to commence in Q4 2018. After due consideration the Committee decided to award a 10% of salary (out of 20%) bonus for this objective, being the pay-out for target performance. Please see 'The POX Hub' report on pages 42 to 51 for further information on this project.

Mr Sergey Ermolenko, Interim Chief Executive Officer, was therefore awarded a total bonus of 25% of his pro-rated base salary.
Mr Andrey Maruta, Chief Financial Officer, was awarded a bonus of 50% of base salary, with the additional 25% of base salary paid to reflect his leadership of the project to refinance the Company's bank debt.
This culminated in the successful issuance by the Group, in November 2017, of the Notes. As detailed in the Chairman's statement on page 115, this bonus objective was agreed with Mr Maruta in the late summer of 2017 and following the change of Directors at the 2017 Annual General Meeting. The funds from the issue of the Notes have been used to repay loans provided pursuant to banking facilities with Sberbank and VTB Bank.
This has provided medium term financial stability for the Company and flexibility for the Group's operations.

As detailed in the 2016 Directors' Remuneration Report, 50% of the bonus payable will be paid in cash with the remaining 50% payable in the form of a Deferred Bonus Award. The Deferred Bonus Awards will be granted following the publication of the 2017 Annual Report, and will vest after one year subject to the continued employment of the individual. The Committee has considered the payment of Mr Maruta's bonus in light of his decision to resign as Chief Financial Officer on 31 March 2018. However given the discussions between Mr Maruta and the Board, as detailed in the Chairman's letter, and as permitted under the Policy, the Committee has approved the payment of the 50% bonus to Mr Maruta. Given the Rules of the LTIP in relation to the Deferred Bonus Award this bonus will be paid in cash.

LTIP

Due to the complete change in the membership of the Remuneration Committee on 22 June 2017 and the resignation of Dr Pavel Maslovskiy as Chief Executive Officer on 17 July 2017 it was agreed that no grant should be made under the Long-Term Incentive Plan during 2017. The Remuneration Committee reviewed the Company's Long-Term Incentive arrangements in July 2017.

◆ Go to pages 197 to 203 for more information on our APMs.

Directors' Remuneration Report continued

Chairman and Non-Executive Director remuneration

The fees paid to the Non-Executive Chairman, Mr Ian Ashby, since his date of appointment on 22 June 2017, and to Non-Executive Directors in respect of the financial years ended 31 December 2017 and 31 December 2016 are as follows:

	Total fees		Total fees	
	2017 £	2016 £	2017 US$	2016 US$
Non-Executive Directors				
Ian Ashby[1]	79,038	–	101,873	–
Bruce M. Buck[2]	47,423	–	61,124	–
Garrett Soden[2]	44,788	–	57,728	–
Vladislav Egorov	0	–	0	–
Former Non-Executive Directors				
Alexander Green[3]	37,500	75,000	48,334	101,625
Robert Jenkins[3]	46,250	87,500	59,612	118,562
Andrew Vickerman[3]	41,250	75,000	53,167	101,625
Sir Roderic Lyne[4]	–	37,500	–	50,813
Total	**296,250**	**275,000**	**381,837**	**372,625**

1. *Mr Ian Ashby was appointed as Non-Executive Chairman on 22 June 2017.*
2. *Messrs Bruce M. Buck and Garrett Soden were appointed as Non-Executive Directors on 22 June 2017.*
3. *Messrs Alexander Green, Robert Jenkins and Andrew Vickerman were not re-elected by shareholders at the AGM held on 22 June 2017 and retired as Directors on that date.*
4. *Sir Roderic Lyne retired as a Non-Executive Director of the Company at the conclusion of the Company's 2016 AGM held on 28 June 2016.*
5. *Mr Vladislav Egorov did not receive any fees from the Company in respect of his position as a Non-Executive Director.*

During 2017, fees for the Non-Executive Directors remained unchanged. The base fee was £75,000. The Chairman of the Audit Committee and the Senior Non-Executive Director were entitled to an additional payment of £10,000 and £7,500 per annum respectively, in respect of these additional responsibilities. The Chairman of the Remuneration Committee was entitled to an additional fee of £7,500 per annum.

Payments for loss of office (audited)

The table below sets out the treatment in relation to Mr Peter Hambro, Executive Chairman, who was not re-elected as a Director at the Annual General Meeting of the Company held on 22 June 2017 and therefore retired from the Board on that date (the 'Termination Date'). The remuneration arrangements in respect of Mr Hambro's departure, set out below, were determined by the Company's Remuneration Committee, in line with the Company's Remuneration Policy approved by shareholders on 22 June 2017.

Former Executive Director	Payment in lieu of notice[1]	Compensation for loss of office[2]	Total
Peter Hambro	£600,000	£30,000	£630,000

1. *Under his service agreement with the Company, Mr Hambro was entitled to 12 months' notice of termination and, as at the Termination Date, received an annual basic salary of £655,000. Mr Hambro received a lump sum payment of £600,000 as compensation for failure by the Company to give notice of termination in accordance with the Service Agreement. This payment was discounted for early receipt.*
2. *Mr Hambro received a further lump sum payment of £30,000 as compensation for loss of office and termination of employment and (in particular for unfair dismissal).*

The payments referred to in 1 and 2 are subject to clawback provisions in the event that Mr Hambro breaches obligations owed to the Company and its subsidiaries under the terms of his settlement agreement with the Company.

In addition Mr Hambro received a payment in lieu of 9 days' annual leave accrued but untaken as at the Termination Date of £22,673. Mr Hambro received a contribution of £20,000 plus VAT in respect of his legal expenses incurred in connection with his departure, which was paid directly to Mr Hambro's legal advisers. Mr Hambro had no outstanding awards under the Company's Long Term Incentive Plan at the Termination Date.

As announced by the Company on 16 February 2018, Mr Andrey Maruta will resign as a Director on 31 March 2018. For the reasons detailed in the Chairman's letter, in line with the approved Remuneration Policy and in accordance with the LTIP Rules, the Committee has used its discretion to allow the pro-rated vesting of the Deferred Bonus Award granted to Mr Maruta on 1 August 2017. In this respect 358,032 Petropavlovsk PLC ordinary shares (with a value of c.£25k as at 26 March 2018) will vest and will be transferred to Mr Maruta as soon as possible following the date of his resignation. Income tax, and employee's National Insurance contributions will be payable by Mr Maruta on the value of the shares as at the date of vesting.

Dr Pavel Maslovskiy resigned as Chief Executive Officer and as a Director on 17 July 2017.

Dr Maslovskiy acted as a consultant of the Company during the period 1 August 2017 to 31 January 2018 assisting the Board whilst it undertook a search for Dr Maslovskiy's successor. In particular Dr Maslovskiy assisted with the project to construct the POX Hub, which is critical to the future of the Group. Dr Maslovskiy received a salary of £24,650 during the period 18 July 2017 to 31 July 2017 and a fee of £272,917 for the period 1 August 2017 to 31 December 2017.

External directorships

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

Implementation of Remuneration Policy in 2018

The section below sets out a summary of how the proposed Remuneration Policy will be implemented for the year ending 31 December 2018.

Executive Directors

Salary

The Remuneration Committee reviewed the Executive Directors' salaries for 2018 in February 2018. It was agreed that no increases should be awarded to either Mr Sergey Ermolenko, Interim Chief Executive Officer or to Mr Andrey Maruta, Chief Financial Officer.

As detailed in the Company's announcement on 8 February 2018, Mr Roman Deniskin will be appointed as Chief Executive Officer with effect from 16 April 2018. His remuneration package on appointment has been determined in line with the Remuneration Policy, and is set out below:

- Salary: £700,000 p.a.
- Annual bonus: maximum opportunity of 100% of salary.
- LTIP: it is intended that an award of 100% of salary will be granted.

Upon Mr Roman Deniskin's appointment in April 2018, Mr Sergey Ermolenko, Interim Chief Executive Officer, will revert to his former role as General Director of MC Petropavlovsk.

Mr Andrey Maruta, Chief Financial Officer, will resign as a Director on 31 March 2018. He will continue as a consultant to the Company for a period of 4 months, whilst the Company appoints a successor and to assist in the handover to the new Chief Financial Officer, during which he will receive a fee of £25,000 per month.

Annual bonus

The maximum annual bonus opportunity for 2018 remains 100% of salary for Executive Directors. The target bonus is 50% of salary; bonuses will be payable on a straight-line basis between target and stretch.

The 2018 annual bonus is based on such measures as the construction of POX, which continues to be critical to the Group, improvement in costs, resolving the potential liability of the Company's guarantee to ICBC in respect of IRC's loan facility and maximising the value of the Group's equity interest in IRC together with health and safety, the latter being of paramount importance to the Board.

As was the case last year, details of the specific targets have not been disclosed in advance due to their commercial sensitivity. Full retrospective disclosure of the specific targets and performance against them will be provided in the 2018 Annual Report on Remuneration.

The annual bonus outcome will be determined with reference to the achievement of the performance conditions, subject to the Committee's broader assessment of overall Company performance. The Committee has the discretion to reduce bonus payments based on its qualitative assessment of overall HSE performance, taking into account the occurrence of any material adverse HSE event or an event which leads to significant reputational damage for the Company.

For 2018, 50% of any bonus payable will be paid in the form of a Deferred Bonus Award, vesting after one year subject to continued service. The remaining 50% will be payable in cash, subject to the normal statutory deductions.

Malus and clawback provisions may be applied at the discretion of the Committee in the event of material misconduct, material misstatement of results, a calculation error and/or poor information used when calculating the reward outcome, for a period of up to two years post-payment.

LTIP

The Committee intends to grant performance share awards under the LTIP awards following the appointment of Mr Deniskin as Chief Executive Officer.

Chairman and Non-Executive Directors

The Non-Executive Chairman and Non-Executive Directors' fees for 2018 will remain unchanged from 2017 levels. A summary of fees is set out below:

	Fees 2018	Fees 2017	Change
Non-Executive Chairman fee	£150,000	N/A	N/A
Non-Executive Director base fee	£75,000	£75,000	0%
Additional Senior Independent Director fee	£7,500	£7,500	0%
Additional Audit Committee Chairman fee	£10,000	£10,000	0%
Additional Remuneration Committee fee	£7,500	£7,500	0%

Percentage change in remuneration of the Chief Executive Officer

The table below shows the percentage change in Chief Executive Officer remuneration from the prior year compared to the average percentage change in remuneration for Executive Committee members. 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 as a subset for the purposes of comparing Chief Executive Officer pay against wider employee pay provides a more useful and meaningful comparison than using pay data for all employees. The majority of the workforce in Russia received wage growth of 10% in 2017.

	Percentage change 2017 vs. 2016	
	Chief Executive Officer[1] Change	Executive Committee Change
Item		
Base salary	(11)%	11%
Taxable benefits	0%	0%
Annual bonus	5%	5%

1. *For 2017, based on the sum of remuneration paid to Dr Pavel Maslovskiy from 1 January to 17 July and to Sergey Ermolenko from 18 July to 31 December. For 2016, based on Dr Pavel Maslovskiy.*

Relative importance of the spend on pay

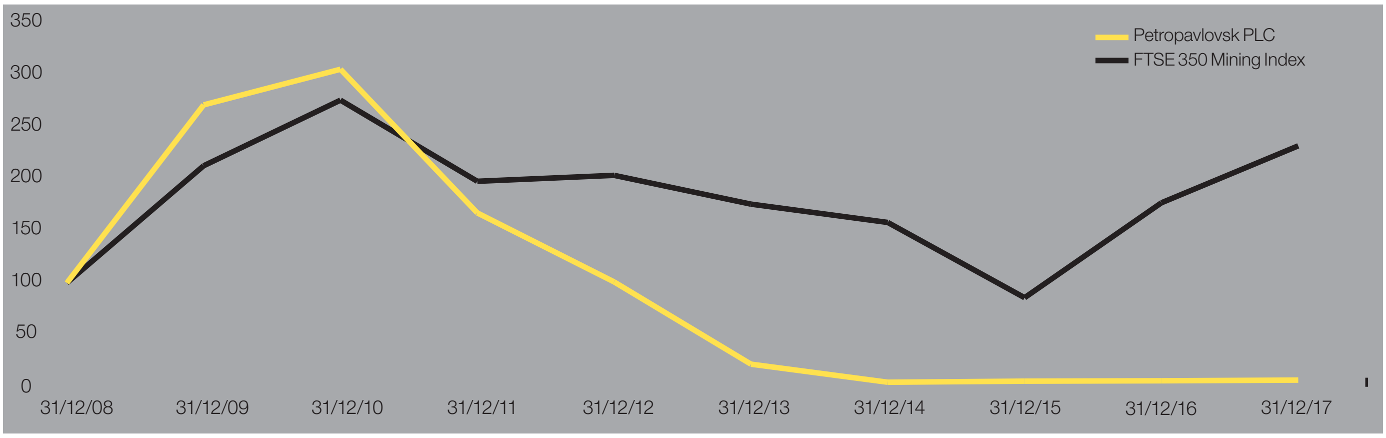
The table below shows the movement in spend on staff costs between the 2017 and 2016 financial years, compared to profit before tax and dividends:

	2017	2016	Change
Staff costs	US$103.63m	US$80.09	29.4%
Average number of staff	8,519	8,064	5.6%
Profit before tax	US$60.5m	US$27.0m	124.1%
Dividends	–	–	–

There were no dividends paid or declared during the years ended 31 December 2017 and 31 December 2016 and no share buy-backs were undertaken.

Total shareholder return
This graph shows the Company's TSR performance relative to the FTSE350 Mining Index over a period of nine years to 31 December 2017. The Board considers the FTSE350 Mining Index to be an appropriate index for comparison as the constituents represent the UK-listed mining sector.

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



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

	Year ended 31 December								
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
Chief Executive Officer during the year[(a)]			Dr Maslovskiy		Mr Ermolenko	Mr Ermolenko/ Dr Maslovskiy		Dr Maslovskiy	Dr Maslovskiy/ Mr Ermolenko
Total remuneration £	1,138,339[(b)]	1,025,991	1,569,190	661,000	400,000	977,605	655,000	786,000	584,584
Annual bonus (%)	70%[(b)]	45%	94.4%	45.5%	0%	100%	0%[(c)]	20%	25%
LTIP vesting (%)	0%	0%	0%	0%	0%	N/A	N/A	N/A	N/A

a. *Dr Pavel Maslovskiy resigned as Chief Executive Officer on 20 December 2011 and Mr Sergey Ermolenko was appointed as Chief Executive Officer on that date. Mr Ermolenko stepped down as Chief Executive officer on 5 November 2014 and Dr Maslovskiy was appointed as Chief Executive Officer on that date. Dr Maslovskiy resigned as Chief Executive Officer on 17 July 2017 and Mr Ermolenko was appointed as Interim Chief Executive Officer on 18 July 2017.*

b. *Dr Maslovskiy also received a special bonus payment of £225,000 during the year ended 31 December 2009 in recognition of the services provided in relation to the Company's acquisition of Aricom plc and to the admission of the Company's shares to trading on the Main Market of the London Stock Exchange plc. The special bonus payment of £225,000 is included in the total remuneration for 2009 shown above but is not included in the annual bonus percentage figure shown of 70%.*

c. *The formulaic outcome of the 2015 Annual Bonus Plan would have resulted in a bonus of 30% of basic salary. However, Dr Maslovskiy agreed that his bonus payment should be waived.*

◆ Go to pages 197 to 203 for more information on our APMs.

Directors' shares and share plan interests

Directors' share interests

The interests of the Directors who held office during the period from 1 January 2017 to 31 December 2017 in the ordinary shares of the Company, together with details of changes to shareholdings between 1 January 2018 and 27 March 2018, are as set out in the table below.

Director	Shares held as at 1 January 2017 or date of appointment if later[1]	Shares held as at 31 December 2017 or date of retirement if earlier[2]	Shares held as at 27 March 2018
Ian Ashby[1]	0	0	0
Bruce M. Buck[2]	0	0	0
Vladislav Egorov[3]	0	0	0
Sergey Ermolenko[4]	318,247	318,247	318,247
Alexander Green[7]	0	0	–
Peter Hambro[5]	152,280,861	152,280,861	–
Robert Jenkins[7]	750,000	750,000	–
Pavel Maslovskiy[6]	190,774,346	58,943,880	–
Andrey Maruta	33,925	33,925	33,925
Garrett Soden[2]	0	0	0
Andrew Vickerman[7]	0	0	–

1. *Appointed Non-Executive Chairman on 22 June 2017.*
2. *Appointed as an Independent Non-Executive Director on 22 June 2017.*
3. *Appointed as a Non-Executive Director on 22 June 2017.*
4. *Appointed as Interim Chief Executive Officer on 18 July 2017.*
5. *Retired as Executive Chairman on 22 June 2017.*
6. *Resigned as a Director and as Chief Executive Officer on 17 July 2017.*
7. *Retired as an Independent Non-Executive Director on 22 June 2017.*

Outstanding share awards

With the exception of the Deferred Bonus Awards made to Messrs Ermolenko and Maruta in respect of 50% of their 2016 bonus, there were no LTIP Awards outstanding as at 1 January 2017 and no LTIP Awards were made during the year.

Director	Date of award	At 1 January 2017	Granted during the year	Face value at grant	At 31 December 2017	Normal vesting date
Sergey Ermolenko	1 August 2017	–	441,876	£32,500	441,876	1 August 2018
Andrey Maruta	1 August 2017	–	537,049	£39,500	537,049	1 August 2018

Mr Ermolenko's outstanding award which related to 50% of the bonus awarded for 2016, will vest and the Ordinary Shares subject to the awards will be transferred to him on 1 August 2018, subject to his continuous employment with the Company until that date.

Mr Maruta will resign as Chief Financial Officer and as a Director of the Company on 31 March 2018. In accordance with the rules of the LTIP 358,032 shares which related to 50% of the bonus awarded for 2016 will vest to Mr Maruta as soon as practicable after the cessation of his employment.

Shares were awarded based on a share price of 7.355 pence per share being the mid-market closing share price of Petropavlovsk PLC Ordinary Shares on 31 July 2017.

Approval

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

Bruce M. Buck
Chairman, Remuneration Committee
27 March 2018

Directors' Report

For the year ended 31 December 2017

This report

This report includes certain disclosures which are required by law to be included in the Directors' Report.

In accordance with the Companies Act 2006, the following items have been reported in other sections of this Annual Report and are included in this Directors' Report by reference:

- Directors' interests in shares as at 31 December 2017 and any changes thereafter can be found on page 132 of the Directors' Remuneration Report.
- The Strategic Report on pages 1 to 93 gives a fair view of the business and an indication of likely future developments and fulfils the requirements set out in section 414C of the Companies Act 2006.
- Details of the Group's corporate governance arrangements and its compliance with the UK Corporate Governance Code (the Code) can be found on pages 96 to 105.
- Details of the Group's approach to financial risk management, its objectives and policies and exposure to risk are described in notes 18 and 27 to the financial statements and in the Risks to Our Performance section on pages 18 to 31.
- The Group's disclosure of its greenhouse gas emissions can be found on page 67.

Directors, Directors' appointment, conflicts of interest and Directors' indemnity

Directors

The names and biographies of the Directors who held office at the date of this Annual Report are set out on pages 94 and 95.

Mr Andrey Maruta, Chief Financial Officer held office throughout 2017 and up until the date of this Report. Changes to the Directors during 2017 and up until the date of this Report are detailed in the table below

Name	Appointed	Retired/Resigned	Position
Mr Peter Hambro		22 June 2017	Executive Chairman
Mr Alexander Green		22 June 2017	Independent Non-Executive Director
Mr Robert Jenkins		22 June 2017	Independent Non-Executive Director
Mr Andrew Vickerman		22 June 2017	Independent Non-Executive Director
Mr Ian Ashby	22 June 2017		Non-Executive Chairman
Mr Bruce M. Buck	22 June 2017		Independent Non-Executive Director
Mr Vladislav Egorov	22 June 2017	1 January 2018	Non-Executive Director
Mr Garrett Soden	22 June 2017		Independent Non-Executive Director
Dr Pavel Maslovskiy		18 July 2017	Chief Executive Officer
Mr Sergey Ermolenko	17 July 2017		Interim Chief Executive Officer
Mr Bektas Mukazhanov	8 February 2018		Non-Executive Director
Mr Adrian Coates	16 February 2018		Non-Executive Director

Further details of these changes are provided on pages 98 and 99 of the Governance Report.

Directors' appointment

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006, and related legislation. Directors may be appointed by the Company by ordinary resolution or by the Board, on recommendation of the 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 2018 AGM.

Conflicts of interest

Under the Companies Act 2006, Directors are subject to a statutory duty to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts of interest of directors where the articles of association contain a provision to that effect. The Company's Articles of Association afford the Directors such powers. In addition, the Directors will be able to impose limits or conditions when giving any authorisation, if they think this is appropriate.

The Board has an established procedure for the disclosure of interests and other related matters. Each Director must promptly disclose actual or potential conflicts and any changes to the Board, which are noted at each Board meeting. The Board considers and authorises potential or actual conflicts as appropriate. Directors with a conflict do not participate in the discussion or vote on the matter in question.

The Directors have reviewed the interests declared by Directors, which could conflict with those of the Company, and are satisfied that the Board's power to authorise potential conflicts is operating effectively. Related party transactions, which includes those in respect of any Director, are disclosed in note 25 to the financial statements on page 181.

Directors' indemnities
A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of the Directors in respect of liabilities incurred as a result of their office to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

Powers of Directors
Subject to the Company's Articles of Association, the prevailing legislation and any directions given by special resolution, the business and affairs of the Company are managed by the Directors who may exercise all such powers of the Company. The powers of Directors are further described in the Schedule of Matters reserved for the Board, copies of which are available on the Company's website at www.petropavlovsk.net.

Other statutory disclosures

Dividends
The Directors do not recommend a final dividend in respect of the year ended 31 December 2017. Future decisions regarding the dividend will be based on a number of factors, including market conditions, distributable reserves, liquidity and operational performance. In any event, the payment of dividends by the Company is restricted by covenants in the Petropavlovsk 2010 Limited 9% Guaranteed Convertible Bonds due 2020 of which the Company is the guarantor.

Employees
The Group maintains a policy of providing employees with information about the Company and regular meetings are held between management and employees to allow exchanges of information and ideas.

The Group is committed to providing equal opportunity for individuals in all aspects of employment. The Group gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

Research and development
Companies within the Group carry out exploration, development and analysis work necessary to support their activities.

Further information is provided in the Operational Performance, Exploration, the POX Hub, the Underground and the Reserves and Resources sections on pages 32 to 62 of the Strategic Report and are incorporated into this Directors' Report by reference.

Donations
In line with the Group policy, no donations were made for political purposes.

Details of the Group's charitable activities are set out in the Sustainability report on page 74.

Share capital and related matters

Share capital
The Company has 3,303,768,532 ordinary shares of £0.01 each in issue as at 31 December 2017 (2016: 3,303,768,532). Details of the Company's issued share capital are set out in note 23 on page 179.

Petropavlovsk's Articles of Association provide the authority for the Company to purchase its own shares provided that it complies with any applicable requirements contained in the Companies Act 2006, the CREST regulations and any other applicable law. The Company did not seek authority from shareholders to make purchases of its own shares at the 2017 AGM and no such authority will be sought in 2018.

Shareholders' rights
The rights attaching to the Ordinary Shares are governed by the Company's Articles of Association and prevailing legislation. There are no specific restrictions on the size of a holding.

Subject to applicable law and the Articles of Association, holders of Ordinary Shares are entitled to receive all shareholder documents, including notice of any general meeting; attend, speak and exercise voting rights at general meetings, either in person or by proxy; and participate in any distribution of income or capital.

Restrictions on voting
In general there are no specific restrictions on a shareholder's ability to exercise their voting rights, save in situations where the Company is legally entitled to impose such restrictions (usually where amounts remain unpaid on the shares after request, or the shareholder is otherwise in default of an obligation to the Company). Currently, all issued Ordinary Shares are fully paid.

Deadlines for exercising voting rights
Votes are exercisable at a general meeting of the Company in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles of Association provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

Transfer of Ordinary Shares
The transfer of Ordinary Shares is governed by the general provisions of the Company's Articles of Association and prevailing legislation. There are no restrictions on the transfer of the Ordinary Shares other than (i) as set out in the Articles of Association; (ii) certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and (iii) pursuant to the Listing Rules of the Financial Conduct Authority and the Market Abuse Regulation whereby certain Directors, officers and employees of the Company require approval to deal in the Ordinary Shares in accordance with the Company's share dealing rules.

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

Petropavlovsk's shareholders passed the following resolution relating to the allotment of shares at the 2017 AGM.

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

  This authority has not been exercised during the reporting period and will expire on the date of the forthcoming AGM.

– The Directors withdrew resolutions seeking to dis-apply pre-emption rights prior to the 2017 AGM.

Resolutions for a renewal of the authority to allot new shares together with authority to dis-apply pre-emption rights over new shares allotted for cash pursuant to the authority to allot new shares may be sought at the 2018 AGM. If sought, the resolutions as regards pre-emption rights disapplication will reflect the requirements of the Pre-Emption Group's revised Statement of Principles that provide for certain non-pre-emptive allocations in the context of acquisitions and specified capital investments.

Further details of the above proposals and resolutions will be contained in the Notice of Annual General Meeting.

Amendment of Articles of Association
The Company's Articles of Association may be amended by special resolution of shareholders. A copy of the Company's Articles of Association adopted by shareholders on 26 February 2015 are available on the Company's website.

Significant shareholdings

Information provided to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DGTRs) is published on a Regulatory Information Service and on the Company's website.

As at 31 December 2017, the Company had received the following disclosures of major holdings of voting rights, pursuant to the requirements of Rule 5 of the DGTR, from holders of notifiable interest in the Company's voting rights.

	No of Shares	% interest in voting rights ordinary shares	Qualifying Financial Instruments	% voting Rights	Financial instruments with similar economic effect to Qualifying Financial Instruments	% voting rights	Total number of voting rights	% of voting rights (as at 31 December 2017)
Fincraft Holdings Ltd[a]	440,565,485	13.34	–	–	225,674,382	6.83 (nominal)	669,239,867	20.17
Sothic Capital European Opportunities Master Fund Limited [b] Gertjan Koomen	347,534,872	10.51	–	–	14,837,653	0.45 (Delta)	362,372,525	10.96
Vailaski Holding Limited[c]	316,200,954 (301,035,074 indirect)	9.57 (9.11 indirect)	–	–	–	–	316,200,954 (301,035,074 indirect)	9.57 (9.11 indirect)
Public joint stock company Asian-Pacific Bank(c)	301,035,074	9.11	–	–	–	–	301,035,074	9.11
VTB Bank (Deutschland) AG	300,000,000	9.08	–	–	–	–	300,000,000	9.08
D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLPDBMMA015 is the full name of the shareholder with respect to the indirect interest over 256,609,333 Ordinary Shares	256,609,333	7.77	–	–	–	–	256,609,333	7.77
M&G/Prudential plc group of companies[d]	224,905,854	6.82	250,005	0.00	–	–	225,155,859	6.82

(a) The interest in financial instruments with similar economic effect to qualifying financial instruments of Fincraft Holdings Ltd relates to the Group's 9% Convertible Bonds due 2020.

(b) The interest in financial instruments with similar economic effect to qualifying financial instruments of Sothic Capital European Opportunities Master Fund Limited relate to Contract for Differences and Total Rate Return Swap.

(c) Vailaski Holding Limited has entered into an option agreement with Asian-Pacific Bank in respect of a total of 301,035,074 shares.

(d) The interest in qualifying instruments of M&G/Prudential group of companies relate to a 'Right of Recall.'

As at 27 March 2018, 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 DGTR:

	No of Shares	% interest in voting rights ordinary shares	Qualifying Financial Instruments	% voting Rights	Financial instruments with similar economic effect to Qualifying Financial Instruments	% voting rights	Total number of voting rights	% of voting rights (as at 27 March 2018)
Fincraft Holdings Ltd(a)	440,565,485	13.34	–	–	225,674,382	6.83 (nominal)	669,239,867	20.17
Sothic Capital European Opportunities Master Fund Limited (b) Gertjan Koomen	347,534,872	10.51	–	–	14,837,653	0.45 (Delta)	362,372,525	10.96
Slevin Ltd	301,035,074	9.11	–	–	–	–	301,035,074	9.11
VTB Bank (Deutschland) AG	300,000,000	9.08	–	–	–	–	300,000,000	9.08
D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLPDBMMA015 is the full name of the shareholder with respect to the indirect interest over 256,609,333 Ordinary Shares	256,609,333	7.77	–	–	–	–	256,609,333	7.77
M&G/Prudential plc group of companies(d)	224,905,854	6.82	250,005	0.00	–	–	225,155,859	6.82

(a) The interest in financial instruments with similar economic effect to qualifying financial instruments of Fincraft Holdings Ltd relates to the Group's 9% Convertible Bonds due 2020.

(b) The interest in financial instruments with similar economic effect to qualifying financial instruments of Sothic Capital European Opportunities Master Fund Limited relate to Contract for Differences and Total Rate Return Swap..

(c) The interest in qualifying instruments of M&G/Prudential group of companies relate to a 'Right of Recall.'

The information provided in the above tables was correct at the date of notification. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Change of control (significant contracts) and post-balance sheet events

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.

Post-balance sheet events

There have been no material events from 31 December 2017 to the date of this Report.

2018 Annual General Meeting (AGM)

Notice of General Meeting

A separate document, the Notice of Annual General Meeting 2018, convening the AGM of the Company to be held on 21 June 2018, will be sent or made available to all shareholders and will contain an explanation of the resolutions to be proposed to that meeting. The Directors consider that each of the Resolutions is in the best interests of the Company and the shareholders as a whole and recommend that shareholders vote in favour of all of the Resolutions.

Electronic proxy voting

Registered shareholders have the opportunity to submit their votes (or abstain) on all Resolutions proposed at the AGM by means of an electronic voting facility operated by the Company's registrar, Link Asset Services. This facility can be accessed by visiting www.signalshares.com. CREST members may appoint a proxy or proxies by using the CREST electronic appointment service.

Electronic copies of the annual report and financial statements and other publications

Copies of the 2017 annual report and financial statements, the Notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Group's website at www.petropavlovsk.net. Shareholders are encouraged to take advantage of the provisions allowing the Company 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.

Disclosure required under the Listing Rules

For the purpose of Listing Rule 9.8.4C, the information required to be disclosed by LR9.8.4R can be found in the Annual Report in the following locations:

Listing Rule	Information to be included	Disclosure
9.8.4(1)	Interest capitalised	Chief Financial Officer's Statement on page 89
9.8.4(2)	Publication of unaudited financial information	Not applicable
9.8.4(4)	Long-term incentive scheme only involving a director (LR9.4.3)	None
9.8.4(5)	Waiver of emoluments by a Director	None
9.8.5(6)	Waiver of future emoluments by a Director	None
9.8.4(7)	Non pre-emptive issues of equity for cash	None
9.8.4(8)	Non pre-emptive allotments for cash (major subsidiaries)	None
9.8.4(9)	Listed company is a subsidiary of another company	Not applicable
9.8.4(10)	Contracts of significance involving a director	None
9.8.4(11)	Contracts of significance involving a controlling shareholder	None
9.8.4(12)	Waivers of dividends	None
9.8.4(13)	Waivers of future dividends	None
9.8.4(14)	Agreement with a controlling shareholder LR9.2.2AR(2)(a)	Not applicable

Accountability and audit

Going concern

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

The Group performed an assessment of the forecast cash flows for the period of 12 months from the date of approval of the 2017 Annual Report and Accounts. As at 31 December 2017, the Group had sufficient liquidity headroom. Following the successful issue of the US$500 million Guaranteed Notes (note 20), the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to April 2019. In the meantime, the Group's projections under a layered stressed case that is based on the gold price, which is 10% lower than the average of the market consensus forecasts, indicate that unless mitigating actions can be taken, there will be insufficient liquidity under a layered stressed case for the relevant period to April 2019. These mitigating actions include items within the control of the management, such as accessing deposits not currently in the Group's mining plan, cost cutting and reduction of exploration expenditure.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$234 million as at 31 December 2017. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. In 2017, IRC has agreed with ICBC to reschedule repayments under the ICBC Facility Agreement and obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive). The next repayment instalment under the ICBC Facility Agreement is now due on 20 June 2018 and semi-annually thereafter until June 2022. IRC projections demonstrate that although IRC expects to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule and non-compliance with certain financial covenants for the relevant period to April 2019. Management of Company and IRC has approached ICBC to request an amendment of the repayment schedule and obtain waivers in respect of obligations to comply with certain financial covenants. Management is also in active discussions regarding the full refinancing of the ICBC facility with an alternative lender. However, if ICBC refinancing is not completed, IRC's financial liquidity may be adversely impacted. IRC and/or the Company would then need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt and/or equity financing.

If a missed repayment under debt or guarantee obligations occurs or financial covenant requirements are not met, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

The risk that ICBC refinancing is not completed or alternative contingency plans are not realised represents a material uncertainty which may cast significant doubt upon the Group's ability to continue to apply the going concern basis of accounting.

Nevertheless, having taken into account the aforementioned factors, and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2017 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required for the "Going Concern" statement. In preparing the assessment of viability the Board has considered the principal risks faced by the Group. These include those of its associate, IRC, for which the Company is a guarantor of the ICBC facility with K&S, a subsidiary of IRC (the "ICBC Facility"), relevant financial forecasts and sensitivities and the availability of adequate funding.

Assessment period and review of forecasts

The Board reviews the Group's forward plans and projections at least annually and has selected a period ("the assessment period") to 31 December 2022 as one appropriate for the purposes of a longer term viability assessment, compared with the three year period selected in both 2015 and 2016. This reflects, in particular, its consideration of the following key matters relating to this timeframe:

- During 2017, the Group repaid its facilities with Sberbank and VTB Group from funds raised from the Group's issuance of US$500m 8.125% Guaranteed Notes due 2022 (the 'Notes'). The repayment of the facilities with Sberbank and VTB and the removal of the financial covenants contained within these facilities has provided the Company with medium term financial stability, excluding any potential liability arising from the Company's guarantee on the ICBC Facility as detailed below. With the exception of the guarantee provided to ICBC in respect of the ICBC Facility (the 'Guarantee'), the issuance of the Notes has significantly de-risked the Group, with its production and maturity profiles now balanced.
- The Group's ability to repay the Group's US$100m Convertible Bonds due March 2020 in full in the event that the Convertible Bonds have not been converted into Petropavlovsk equity.
- The Group's ability to repay the Notes in full in November 2022.
- The inherent significant uncertainties in forecasting the gold price and Russian Rouble to US Dollar exchange rate over a longer term timeframe.
- The Group's long-term mining plan ('LTP') which covers a five year period.

Forecasts are prepared using forward commodity prices and Russian/Rouble US Dollar exchange rate assumptions. In addition as detailed in the Strategic Report, key elements of the forecasts include:

- Commence commissioning of the POX Hub in Q4 2018, with first commercial production scheduled in Q4 2018; and
- Continue ramping up of underground production at both Pioneer and Malomir.

The Board has considered the Group's long-term mining plan ("LTP") which covers a five year period and has concluded that a five year period is the most appropriate period for assessing the Group's prospects (the "assessment period").

The Group's planning process is built on a mine by mine basis, using a detailed technical and financial model. The LTP makes certain assumptions regarding the future gold price environment and the Russian Rouble US Dollar exchange rates. The LTP is stress tested for market sensitivities as part of ongoing reviews. The key components of the LTP, associated risks and relevant scenario testing to this planning process are communicated to the Directors at least annually as appropriate.

The Board considers that the LTP provides a robust planning tool against which strategic decisions can be made, however it is not prepared with the same level of detail as the annual budget and hence provides less certainty of outcome.

Review of principal risks
During 2017, the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, including the Guarantee. IRC became an associate of the Group on 7 August 2015, however given the continuance of the Guarantee the Board closely reviews the operations of IRC and takes into account IRC's going concern analysis and financial model. The Group's principal risks are set out in detail on pages 20 to 31.

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

i) Complete the construction of the POX Hub out of free cash flow for commissioning Q4 2018, with ramp up to full commercial production throughout 2019;

ii) Achieve the Group's production profile, cash generation and adhere to the Capital Expenditure◆ plans detailed in the LTP;

iii) Repay the US$100m Petropavlovsk 2010 Limited 9% Convertible Bonds due 2020 (the '2020 Bonds') from cash generated from the Group's operation on the assumption that they have not been converted into equity; and

iv) Repay the US$500m 8.125% Guaranteed Notes issued in November 2017, when they become repayable in November 2022 from cash generated from the Group's operations.

In addition, and as stated above, the Group has guaranteed the amounts outstanding under the ICBC Facility. As at 31 December 2017 the amount outstanding under this facility was US$234m. The next repayment instalment under the ICBC Facility Agreement of US$29.75m is due on 20 June 2018 with payments then due semi-annually until June 2022. IRC's projections demonstrate that although IRC expects to have sufficient working capital liquidity over the next 12 months, unless mitigating actions can be taken there will be insufficient liquidity to meet its debt repayment schedule and for IRC and Petropavlovsk PLC to comply with certain financial covenants within the ICBC Facility Agreement.

The Company and IRC has entered into discussions with ICBC to reschedule its repayments and obtain waiver of financial covenants. In addition IRC is in advanced discussions with a leading Russian bank to refinance the ICBC Facility. In preparing this viability statement the Directors, have carefully considered the analysis of IRC that it will be successful in either rescheduling the ICBC Facility or refinancing the ICBC Facility with another lender and following this analysis the viability statement is based on the Directors' assessment that this will be achieved.

On this basis, the five year forecast supporting the Group's longer term viability statement assumes that IRC will be able to reschedule its debt with ICBC and receive waivers of financial covenants or refinance its debt with the Russian bank.

Conclusion
On the basis of the key assumptions described above, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due, during the period to 31 December 2022. The Directors' assessment has been made with reference to the Group's current position and prospects, the Group's strategy, the Board's risk appetite and how these are managed, as detailed in the Strategic Report.

Information to the independent auditors
The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and that each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Resolution to re-appoint independent auditor
Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming AGM.

Fair, balanced and understandable
The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

This report was approved by the Board of Directors of Petropavlovsk PLC and signed on its behalf by:

Amanda Whalley ACIS
Company Secretary
27 March 2018

Directors' Responsibilities Statement

For the year ended 31 December 2017

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- In preparing the group financial statements, International Accounting Standard 1 requires that directors:
- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved by the board of directors on 27 March 2018 and is signed on its behalf by:

Ian Ashby
Chairman
27 March 2018

Andrey Maruta
Chief Financial Officer
27 March 2018

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2017

Report on the audit of the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Petropavlovsk PLC (the 'Company') and its subsidiaries (the 'Group') which comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Company Balance Sheets;
- the Group and Company statements of changes in equity;
- the Group Cash Flow Statement;
- the Group and Company Statements of accounting policies;
- the related notes 1 to 32 to the Group financial statements; and
- related notes 1 to 9 to the Company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to note 2.1 in the financial statements, which indicates that certain events or conditions have been identified during the course of the audit that may cast significant doubt on the Group's ability to continue as a going concern as explained below.

The Group guarantees US$234m of debt owed by its associate, IRC Ltd, and is also affected by the financial covenants associated with the guarantee. Management has concluded that IRC is unlikely to have sufficient liquidity to make the principal repayment due on 20 June 2018 and, furthermore, that there is expected to be a breach of the financial covenants by the Group and IRC Ltd at the next covenant measurement date of 30 June 2018. IRC has initiated negotiations with its lender and an alternative lender to refinance the debt and extend its credit facilities, these discussions are ongoing as at the date of approval of the Group's financial statements.

If the refinancing does not occur the outstanding loan principal would become due and the Group would become liable for the guarantee. The Group's cash flow forecasts indicate that there will be insufficient funds to pay the guarantee if it is called. As such, the ability of the Group to continue as a going concern is reliant on the successful completion of the refinancing of IRC's debt. We understand that both IRC and Petropavlovsk management are in discussion with the lender and, concurrently, with an alternative lender but that these negotiations are not complete.

Given the importance of management's judgements in relation to this matter, and in relation to the Group's own liquidity forecasts, we also considered there to be potential for manipulation of the assumptions made by management.

In response to this matter, we:

- assessed the impact of the Group's continuing guarantee of its associate IRC Ltd's debt with ICBC, through assessment of the likelihood of the guarantee being called during the going concern period;
- obtained and reviewed the cash flow forecasts prepared by management of the Group's significant associate, IRC Ltd, and assessed the reasonableness of the underlying key assumptions, including performing a sensitivity analysis;
- obtained and reviewed the Group management's paper on going concern which was approved by the Board and the Group's cash flow and covenant compliance forecasts for the period of twelve months from the date of approval of the Group's financial statements; this paper included stress tests for a range of reasonably possible scenarios and also identified a number of mitigating actions to counter reasonable downside scenarios;
- with our mining specialists, VenmynDeloitte, challenged the reasonableness of the mitigating actions proposed by the Group's management, including a production profile and recovery rates forecast in relation to the Katrin deposit and assessed the extent to which further oxide ore reserves can add to production levels by interviewing the Group's chief geologist and reviewing internally prepared production profiles based on additional JORC reserves approved in March 2018;
- compared the Group's cash flow forecasts which are prepared on a rolling basis with the Board approved budget and obtained explanations for any significant differences;
- assessed the historical accuracy of the Group's forecasting, with the assistance of VenmynDeloitte;
- used our internal modelling specialists to test clerical accuracy of the underlying model used to prepare the forecasts;
- obtained and reviewed the minutes of relevant Board meetings;

- assessed whether the disclosures relating to going concern included in the financial statements are balanced, proportionate and clear; and
- considered evidence of management bias in the assumptions selected and applied professional scepticism to address the risk of fraud.

As stated in note 2.1 to the financial statements the need for IRC Ltd to refinance indicates that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Summary of our audit approach	
Key audit matters	The key audit matters that we identified in the current year were: – going concern (see material uncertainty related to going concern section above); – impairment of mining assets; – accounting for the investment in associate.
Materiality	We used a materiality of $8.7 million (2016: $10 million) for our audit of the Group financial statements. This represents less than 2% of net assets.
Scoping	Our Group audit included a full scope audit of all operating mines and service entities and specific procedures in relation to certain exploration assets, cost of sales and inventory balances. Our full scope and specific audit procedures covered 100% of the Group's revenue (2016: 99%) and 96% of the Group's net assets (2016: 95%).
Significant changes in our approach	There have been no significant changes to our approach to the audit, aside from recoverability of gold in circuit inventory not being a key audit matter for this year's audit and the inclusion of the accounting for the investment in associate as a new key audit matter. Following a number of operational measures implemented by management the gold in circuit balance decreased to $24 million at 31 December 2017 (2016: $71 million) and a write-down of $3.9 million has been recognised by management in line with the requirements of IAS 2. On this basis, we concluded that recoverability of gold in circuit inventory was not a key audit matter for the year ended 31 December 2017. Given the significance of the impact of IRC's results on the Group's financial statements and the material uncertainty associated with IRC's going concern status as noted above, we have identified the Accounting for the Investment in Associate as a new key audit matter in the current period.

Conclusions relating to principal risks and viability statement
Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 18 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 140 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 139 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Aside from the impact of the matters disclosed in the material uncertainty relating to going concern section, we confirm that we have nothing material to add or draw attention to in respect of these requirements.

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

For the year ended 31 December 2017

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of mining assets	
Key audit matter description	The carrying amount of the Group's mining assets at 31 December 2017 was $964 million (2016: $934 million). In line with IAS 36 Impairment of Assets management assessed whether any internal or external indicators of impairment exist in relation to these assets at 31 December 2017. Following the identification of a number of impairment indicators a full impairment test has been performed across all mining assets. No impairments were recognised as a result of this assessment. Please refer to note 2.1 to the Group financial statements and the Audit Committee report on page 108 for further details. As described in note 3.2 to the financial statements the recoverable value of property, plant and equipment is considered by management to be a critical accounting judgement and key source of estimate uncertainty. The recoverable values are sensitive to changes in assumptions made by management in the underlying calculations, in particular to movements in the gold price and discount rates. Management has disclosed the impact of sensitivities of the discount rate, foreign exchange rate and the long term gold price in note 6 to the Group financial statements on page 168. We have pinpointed the key audit matter in this area to the key judgements which are the discount rate, future production estimates, the long term gold price and the exchange rate.
How the scope of our audit responded to the key audit matter	We challenged management's significant assumptions used in the impairment testing for mining assets, by: – benchmarking and analysing management's assumed future gold prices and foreign exchange rates with reference to third party data such as independent broker forecasts and market consensus data where appropriate; – engaging our mining consultants, VenmynDeloitte, to review the Group's long-term mine plan, including an assessment of the refractory ore production forecasts for reasonableness; – engaging our internal valuations team to perform an independent WACC recalculation to facilitate the benchmarking of management's adopted discount rate; – evaluating the sensitivity analysis performed by management relating to the impairment review.
Key observations	The assumptions made by management when determining the mining assets' recoverable amounts fall within a reasonable range, except for the foreign exchange rate which falls below the consensus range in the long term. We note that sensitising this assumption would not lead to additional impairments. Overall, we are satisfied that the recoverability of the assets has been assessed in accordance with the requirements of IAS 36 Impairment of Assets.

◆ Go to pages 197 to 203 for more information on our APMs.

Accounting for the Investment in Associate	
Key audit matter description	On 20 March 2018, the Group's associate, IRC Ltd, announced that in its 2017 financial statements it plans to book a partial reversal of previously recognised impairment losses at the K&S mine of c.$130m, of which c.$40m has been included in the Group's share of the results of the associate. The recognition of this reversal has resulted in an uplift in the valuation of the investment in IRC to $71m at 31 December 2017 (2016: $36m). Given the size of the reversal, the significance of the impact of IRC's results on the Group's financial statements and the material uncertainty associated with IRC's going concern status as noted above, we have identified the Accounting for the Investment in Associate as a new key audit matter in the current period. Due to the liquidity issues experienced by IRC Ltd management identified this as an impairment indicator in relation to the carrying value of the investment in associate at 31 December 2017. An impairment test has been performed to determine whether the recoverable amount of the investment was higher than its carrying value. Based on the assessment performed management has concluded that no impairment would be required in the Group financial statements in relation to this balance. Please refer to note 2.1 to the Group financial statements and the Audit Committee report on page 108 for further details.
How the scope of our audit responded to the key audit matter	We challenged management's significant assumptions used in the impairment testing for mining assets, by: – obtaining and challenging management's impairment assessment of the Group's investment in IRC Ltd; – determine whether the accounting adopted in respect the investment in associate is in compliance with the requirements of IAS 28; – checking the mechanical accuracy of management's calculations underpinning the recognition of the Group's share of IRC Ltd's profit and the carrying amount of the investment in associate at 31 December 2017; – obtaining and challenging the key assumptions used in the impairment model prepared by the Group's associate's management to determine the value in use of IRC Ltd's mining asset in respect of which the impairment reversal has been recognised; this included evaluating the sensitivity analysis performed in relation to the key assumptions; – comparing the carrying value of the investment in the Group's financial statements at 31 December 2017 to the fair value of the investment in IRC determined with reference to its share price and to the value in use of the underlying asset to assess it for impairment.
Key observations	We are satisfied that management has accounted for the investment in associate in line with the requirements of IAS 28 Investments in Associates and management's assessment of the Group's investment in IRC for impairment has been performed in accordance with the requirements of IAS 36 Impairment of Assets.

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

For the year ended 31 December 2017

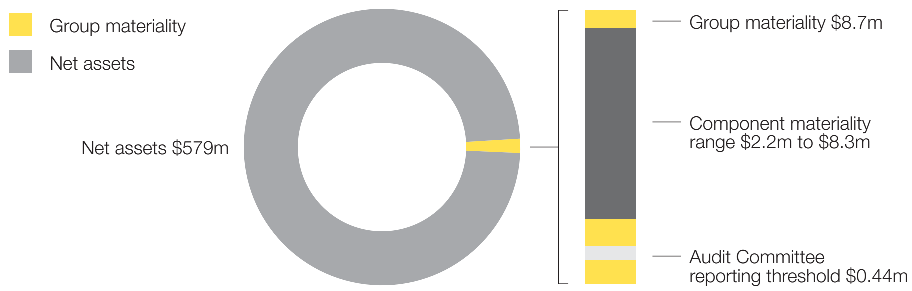
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Company financial statements
Materiality	$8.7 million (2016: $10.0 million)	$8.3 million (2016: $9.9 million)
Basis for determining materiality	Less than 2 per cent of Group net assets, consistent with the approach taken in 2016.	Less than 2 per cent of the Company's net assets, consistent with the approach taken in 2016.
Rationale for the benchmark applied	This reflects the value of the Group's mining assets and associated proven and probable reserves. We determined that using a balance sheet metric, rather than profit-based metric, provides a more stable base for materiality as it is not affected by income statement volatility.	We have determined materiality based on the net asset position of the Company as its principal activity is to hold investments in subsidiaries and external debt.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $435 thousand (2016: $500 thousand) for the Group and $413 thousand (2016: $495 thousand) for the Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.



An overview of the scope of our audit

Our Group audit focused primarily on the operating locations, being the four operating mines (2016: four), twelve service entities (2016: twelve), four exploration assets (2016: six), twenty four finance and holding companies (2016: twenty four) as well as on a significant associate of the Group. All of the operating mines were subject to a full scope audit, whilst the exploration assets, finance and holding companies and service entities were subject to specified audit procedures, including testing of the capitalised spend on exploration activities, an impairment assessment and substantive testing of borrowings, material cost of sales and inventory balances, or desktop reviews. The Group's associate was subject to specific audit procedures. The extent of our audit procedures was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at the selected locations.

These operating locations represent the principal business units within the Group's reportable segments and account for 96% (2016: 95%) of the Group's net assets and 100% (2016: 99%) of the Group's revenue. They were also selected to provide an appropriate basis for undertaking audit work to address the significant risks of material misstatement identified above.

Full scope audits and specified audit procedures were performed by the component team in Russia under the direct supervision of the Group audit team and executed at levels of materiality applicable to each individual entity. The materiality applied to components, ranged from $2.2 million to $8.3 million (2016: $4.5 million to $9.9 million).

The Group team took direct responsibility for the audit work in respect of the consolidation process, the investment in associate as well as the Group and Company financial statements. The Group team planned, oversaw and directed the work performed by the component auditors. The procedures performed included, but were not limited to, site visits to Group's operating locations, regular communications with the component auditors, a review of the reports provided on the results of the work undertaken by the component audit teams as well as a detailed review of the underlying working papers and challenging the procedures performed to ensure compliance with the relevant professional standards.

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

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

– Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

– Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

– Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

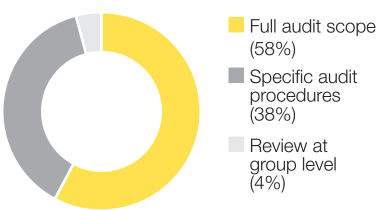
In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

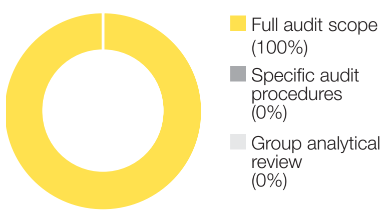
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Net assets



Revenue



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

For the year ended 31 December 2017

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters
Auditor tenure
Following the recommendation of the audit committee, we were appointed by the Board of Directors on 15 May 2009 to audit the financial statements for the year ending 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years covering the years ending 31 December 2009 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee
Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Timothy Biggs, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

27 March 2017

Consolidated Income Statement

For the year ended 31 December 2017

	note	2017 US$'000	2016 US$'000
Group revenue	5	587,420	540,684
Operating expenses	6	(510,683)	(460,103)
		76,737	80,581
Share of results of associates	14	35,208	(3,581)
Operating profit		111,945	77,000
Investment income	9	760	556
Interest expense	9	(25,905)	(60,976)
Other finance gains	9	2,199	11,976
Other finance losses	9	(28,470)	(1,548)
Profit before taxation		60,529	27,008
Taxation	10	(19,063)	4,698
Profit for the period		41,466	31,706
Attributable to:			
Equity shareholders of Petropavlovsk PLC		42,378	33,719
Non-controlling interests		(912)	(2,013)
Profit per share			
Basic profit per share	11	US$0.01	US$0.01
Diluted profit per share	11	US$0.01	US$0.01

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 US$'000	2016 US$'000
Profit for the period	41,466	31,706
Items that may be reclassified subsequently to profit or loss:		
Revaluation of available-for-sale investments	(758)	834
Exchange differences:		
Exchange differences on translating foreign operations	832	2,577
Share of other comprehensive (loss)/income of associate	(458)	560
Cash flow hedges:		
Fair value losses	(39,148)	(4,940)
Tax thereon	7,343	988
Transfer to revenue	(808)	8,494
Tax thereon	162	(1,699)
Other comprehensive (loss)/profit for the period net of tax	(32,835)	6,814
Total comprehensive profit for the period	8,631	38,520
Attributable to:		
Equity shareholders of Petropavlovsk PLC	9,706	40,494
Non-controlling interests	(1,075)	(1,974)
	8,631	38,520

Consolidated Balance Sheet

As at 31 December 2017

	note	31 December 2017 US$'000	31 December 2016 (restated)[a] US$'000	1 January 2016 (restated)[a] US$'000
Assets				
Non-current assets				
Exploration and evaluation assets	12	53,518	49,270	68,993
Property, plant and equipment	13	984,114	953,794	1,038,343
Investments in associates	14	70,890	36,140	39,394
Available-for-sale investments		347	1,105	271
Inventories	15	72,720	51,686	51,434
Other non-current assets		8,931	11,383	12,543
		1,190,520	1,103,378	1,210,978
Current assets				
Inventories	15	172,652	183,266	175,222
Trade and other receivables	16	75,830	90,430	49,937
Derivative financial instruments	18	–	7,478	3,925
Cash and cash equivalents	17	11,415	12,642	28,239
		259,897	293,816	257,323
Total assets		1,450,417	1,397,194	1,468,301
Liabilities				
Current liabilities				
Trade and other payables	19	(88,333)	(55,638)	(96,567)
Current income tax payable		(940)	(2,288)	(4,748)
Borrowings	20	(7,137)	(85,306)	(260,248)
Provision for close down and restoration costs	22	(200)	–	–
		(96,610)	(143,232)	(361,563)
Net current assets/(liabilities)		163,287	150,584	(104,240)
Non-current liabilities				
Borrowings	20	(589,337)	(525,906)	(378,030)
Derivative financial instruments	18	(49,684)	(10,314)	(14,684)
Deferred tax liabilities	21	(106,271)	(119,028)	(152,799)
Provision for close down and restoration costs	22	(20,804)	(19,152)	(17,184)
Financial liabilities	25	(8,603)	(9,229)	(12,368)
		(774,699)	(683,629)	(575,065)
Total liabilities		(871,309)	(826,861)	(936,628)
Net assets		579,108	570,333	531,673
Equity				
Share capital	23	48,920	48,920	48,874
Share premium		518,142	518,142	518,142
Own shares		–	–	(8,933)
Hedging reserve		(26,388)	5,900	3,096
Share based payments reserve		144	–	280
Other reserves		(17,500)	(17,574)	(20,985)
Retained earnings/(losses)		47,457	(1,502)	(27,222)
Equity attributable to the shareholders of Petropavlovsk PLC		570,775	553,886	513,252
Non-controlling interests		8,333	16,447	18,421
Total equity		579,108	570,333	531,673

(a) See note 2 for details regarding the restatement.

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 27 March 2018 and signed on their behalf by

Ian Ashby
Director

Andrey Maruta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Total attributable to equity holders of Petropavlovsk PLC									
	Share capital US$'000	Share premium US$'000	Own shares [(a)] US$'000	Share based payments reserve US$'000	Hedging reserve US$'000	Other reserves [(b)] US$'000	Retained earnings/ (losses) US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2016	48,874	518,142	(8,933)	280	3,096	(20,985)	(47,922)	492,552	18,421	510,973
Correction of error in accounting for deferred tax liabilities [(c)]	–	–	–	–	–	–	20,700	20,700	–	20,700
Balance at 1 January 2016 (restated)	48,874	518,142	(8,933)	280	3,096	(20,985)	(27,222)	513,252	18,421	531,673
Total comprehensive income/(loss)	–	–	–	–	2,804	3,411	34,279	40,494	(1,974)	38,520
Profit/(loss) for the period	–	–	–	–	–	–	33,719	33,719	(2,013)	31,706
Other comprehensive income	–	–	–	–	2,804	3,411	560	6,775	39	6,814
Deferred share awards	46	–	8,933	(280)	–	–	(8,559)	140	–	140
Balance at 31 December 2016	48,920	518,142	–	–	5,900	(17,574)	(1,502)	553,886	16,447	570,333
Total comprehensive (loss)/income	–	–	–	–	(32,288)	74	41,920	9,706	(1,075)	8,631
Profit/(loss) for the period	–	–	–	–	–	–	42,378	42,378	(912)	41,466
Other comprehensive (loss)/income	–	–	–	–	(32,288)	74	(458)	(32,672)	(163)	(32,835)
Deferred share awards	–	–	–	144	–	–	–	144	–	144
Issue of shares by subsidiary	–	–	–	–	–	–	7,039	7,039	(7,039)	–
Balance at 31 December 2017	48,920	518,142	–	144	(26,388)	(17,500)	47,457	570,775	8,333	579,108

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

(b) Including translation reserve of US$(14.8) million, 31 December 2016: US$(15.6) million.

(c) See note 2 for details regarding the restatement.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	note	2017 US$'000	2016 US$'000
Cash flows from operating activities			
Cash generated from operations	24	204,306	126,013
Interest paid		(49,205)	(53,708)
Income tax paid		(31,098)	(35,305)
Net cash from operating activities		124,003	37,000
Cash flows from investing activities			
Proceeds from disposal of subsidiaries, net of cash disposed and liabilities settled		–	19,188
Proceeds from disposal of the Group's interests in associates		–	231
Purchase of property, plant and equipment	24	(82,295)	(22,004) [a]
Expenditure on exploration and evaluation assets	12	(5,763)	(7,356) [a]
Proceeds from disposal of property, plant and equipment		334	742
Repayment of amounts loaned to other parties		–	1
Interest received		752	540
Net cash used in investing activities		(86,972)	(8,658)
Cash flows from financing activities			
Issue of Notes, net of transaction cost		495,035	–
Proceeds from borrowings		–	295,250 [b]
Repayments of borrowings		(525,789)	(322,221) [b]
Debt transaction costs paid in connection with bank loans		(9,040)	(4,031)
Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development	29	31,225	30,771
Funds transferred under investment agreement with the Russian Ministry of Far East Development	29	(31,225)	(47,665)
Guarantee fee in connection with ICBC facility		1,158	1,126
Net cash used in financing activities		(38,636)	(46,770)
Net decrease in cash and cash equivalents in the period		(1,605)	(18,428)
Effect of exchange rates on cash and cash equivalents		378	2,831
Cash and cash equivalents at beginning of period	17	12,642	28,239
Cash and cash equivalents at end of period	17	11,415	12,642

(a) An amount of US$9.2 million has been re-presented between movements in purchase of property, plant and equipment and expenditure on exploration and evaluation assets. This increased the cash outflow for the purchase of property, plant and equipment from US$12.8 million to US$22.0 million with a corresponding adjustment to expenditure on exploration and evaluation assets which reduced from US$16.6 million to US$7.4 million.

(b) Including US$295.25 million in connection with bank debt refinancing.

1. General information

Petropavlovsk PLC (the 'Company') is a company incorporated and registered in England and Wales. The address of the registered office is 11 Grosvenor Place, London SW1X 7HH.

2. Significant accounting policies

2.1. Basis of preparation and presentation

The consolidated financial statements of Petropavlovsk PLC and its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial investments, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Going concern

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

The Group performed an assessment of the forecast cash flows for the period of 12 months from the date of approval of the 2017 Annual Report and Accounts. As at 31 December 2017, the Group had sufficient liquidity headroom. Following the successful issue of the US$500 million Guaranteed Notes (note 20), the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to April 2019. In the meantime, the Group's projections under a layered stressed case that is based on the gold price, which is 10% lower than the average of the market consensus forecasts, indicate that unless mitigating actions can be taken, there will be insufficient liquidity under a layered stressed case for the relevant period to April 2019. These mitigating actions include items within the control of the management, such as accessing deposits not currently in the Group's mining plan, cost cutting and reduction of exploration expenditure.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$234 million as at 31 December 2017. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. In 2017, IRC has agreed with ICBC to reschedule repayments under the ICBC Facility Agreement and obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive). The next repayment instalment under the ICBC Facility Agreement is now due on 20 June 2018 and semi-annually thereafter until June 2022. IRC projections demonstrate that although IRC expects to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule and non-compliance with certain financial covenants for the relevant period to April 2019. Management of Company and IRC has approached ICBC to request an amendment of the repayment schedule and obtain waivers in respect of obligations to comply with certain financial covenants. Management is also in active discussions regarding the full refinancing of the ICBC facility with an alternative lender. However, if ICBC refinancing is not completed, IRC's financial liquidity may be adversely impacted. IRC and/or the Company would then need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt and/or equity financing.

If a missed repayment under debt or guarantee obligations occurs or financial covenant requirements are not met, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

The risk that ICBC refinancing is not completed or alternative contingency plans are not realised represents a material uncertainty which may cast significant doubt upon the Group's ability to continue to apply the going concern basis of accounting.

Nevertheless, having taken into account the aforementioned factors, and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2017 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Correction of error in accounting for deferred tax liabilities

In 2017, the Group undertook a detailed review of the implications of impairment provision recognised in relation to property, plant and equipment in prior periods on deferred taxation and concluded that deferred tax liability has been overstated. The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	31 December 2016 US$'000	(Decrease)/ increase US$'000	31 December 2016 Restated US$'000	1 January 2016 US$'000	(Decrease)/ increase US$'000	1 January 2016 Restated US$'000
Deferred tax liabilities	139,728	(20,700)	119,028	173,499	(20,700)	152,799
Net assets	549,633	20,700	570,333	510,973	20,700	531,673
Retained losses	22,202	(20,700)	1,502	47,922	(20,700)	27,222
Total equity	549,633	20,700	570,333	510,973	20,700	531,673

Presentation of the ICBC guarantee arrangements
As at 30 June 2017, the Group reviewed arrangements under the ICBC guarantee (note 20) and concluded it would be more appropriate to disclose the associated receivable from IRC and financial liability under the ICBC guarantee contract on a gross basis. The affected financial statement line items for the prior periods have been re-presented accordingly as set out below. This re-presentation did not have any impact on net assets, retained losses or total equity.

	31 December 2016 US$'000	Increase US$'000	31 December 2016 Restated US$'000	1 January 2016 US$'000	Increase US$'000	1 January 2016 Restated US$'000
Other non-current assets	2,154	9,229	11,383	175	12,368	12,543
Financial liabilities	–	9,229	9,229	-	12,368	12,368

2.2. Adoption of new and revised standards and interpretations

New and revised standards and interpretations adopted for the current reporting period.
The following new and revised Standards and Interpretations that were effective for annual periods beginning on or after 1 January 2017 and applicable to the Group have been adopted:

- Amendments to IAS 7 'Statement of cash flows": Disclosure Initiative.
- Amendments to IAS 12 "Income taxes": Recognition of Deferred Tax Assets for Unrealised Losses.
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 12 "Disclosure of interests in other entities".

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

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2017 and not early adopted.
At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 'Financial instruments':

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

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

  Impairment: The new impairment model requires the recognition of impairment provision based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. This may result in an earlier recognition of credit losses. Based on the assessments undertaken to date, the Group expects an approximately US$0.5 million increase in the loss allowance for the receivable recognised in relation to the ICBC guarantee arrangements (note 25).

  Hedge accounting: The adoption of the new standard would not materially change the amounts recognised in relation to existing hedging arrangements but could provide scope to apply hedge accounting to a broader range of transactions in the future. The Group intends to continue to apply hedge accounting requirements under IAS 39.

- IFRS 15 'Revenue from contracts with customers'.

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

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

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

- IFRS 16 'Leases'.

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

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

  The Group's operating lease arrangements are set out in note 28. The Group has performed the review to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. The Group estimates that, except for the lease of office premises, the majority of lease arrangements will be covered by the exception for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss. With regards to the lease of office premises, the Group has not yet assessed what other adjustments, if any, are necessary because the different treatment of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised, if any, on adoption of the new standard and how this may affect the group's profit or loss and classification of cash flows going forward.

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

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2.3. Basis of consolidation
These consolidated financial statements consist of the financial statements of the Company and its subsidiaries as at the balance sheet date. Subsidiaries are all entities over which the Group has control.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if, and only if, it has all of the following:

– Power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary).
– Exposure, or rights, to variable returns from its involvement with the subsidiary.
– The ability to use its power over the subsidiary to affect its returns.

When the Group has less than a majority of the voting rights of a subsidiary or similar rights of a subsidiary, it considers all relevant facts and circumstances in assessing whether it has power over the subsidiary including:

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
– potential voting rights held by the Group, other vote holders or other parties;
– rights arising from other contractual arrangements; and
– any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Company reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. The recognised income and expense are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.4. Non-controlling interests
The Group treats transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.5. Investments in associates
An associate is an entity over which the Group is in a position to exercise significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method of accounting. 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.

The carrying amount of equity-accounted investments is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the policy described in note 2.9.

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.

2.6. Foreign currency translation
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, which is the Group's presentation currency. The functional currency of the Company is the US Dollar.

The rates of exchange used to translate balances from other currencies into US Dollars were as follows (currency per US Dollar):

	As at 31 December 2017	Average year ended 31 December 2017	As at 31 December 2016	Average year ended 31 December 2016
GB Pounds Sterling (GBP : US$)	0.74	0.78	0.81	0.74
Russian Rouble (RUB : US$)	57.60	58.32	60.66	67.18

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations which have a functional currency other than US Dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and expenses and accumulated in equity, with share attributed to non-controlling interests as appropriate. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation.

2.7. Exploration and evaluation assets

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, are capitalised and recorded on the balance sheet within exploration and evaluation assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling pre-feasibility and feasibility studies; and
- costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration and evaluation assets are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made.

Exploration and evaluation assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

2.8. Property, plant and equipment

Mine development costs

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as 'mine development costs'. Mine development costs are reclassified as 'mining assets' at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

Mine development costs are not depreciated, except for property plant and equipment used in the development of a mine. Such property, plant and equipment are depreciated on a straight-line basis based on estimated useful lives and depreciation is capitalised as part of mine development costs.

Mining assets

Mining assets are stated at cost less accumulated depreciation. Mining assets include the cost of acquiring and developing mining assets and mineral rights, buildings, vehicles, plant and machinery and other equipment located on mine sites and used in the mining operations.

Mining assets, where economic benefits from the asset are consumed in a pattern which is linked to the production level, are depreciated using a units of production method based on the volume of ore reserves. This results in a depreciation charge proportional to the depletion of reserves. The basis for determining ore reserve estimates is set out in note 3.2. Where the mining plan anticipates future capital expenditure to support the mining activity over the life of the mine, the depreciable amount is adjusted for such estimated future expenditure.

Certain property, plant and equipment within mining assets are depreciated based on estimated useful lives, if shorter than the remaining life of the mine or if such property, plant and equipment can be moved to another site subsequent to the mine closure.

Mining assets related to alluvial gold operations are depreciated on a straight-line basis based on estimated useful lives.

Non-mining assets
Non-mining assets are stated at cost less accumulated depreciation. Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

Capital construction in progress
Capital construction in progress is stated at cost. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. Capital construction in progress is not depreciated.

Depreciation
Property, plant and equipment are depreciated using a units of production method as set out above or on a straight-line basis based on estimated useful lives. Estimated useful lives normally vary as set out below.

	Average life Number of years
Buildings	15-50
Plant and machinery	3-20
Vehicles	5-7
Office equipment	5-10
Computer equipment	3-5

Residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively.

2.9. Impairment of non-financial assets
Property, plant and equipment, exploration and evaluation assets and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This applies to the assets held by the Group itself as well as the Group's share of the assets held by the associates.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) or 'fair value less costs to sell'. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction. Future cash flows are based on:

- estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices (assuming the current market prices will revert to the Group's assessment of the long-term average price, generally over a period of up to five years); and
- future cash costs of production, capital expenditure, environment protection, rehabilitation and closure.

IAS 36 'Impairment of assets' includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related capital expenditure. When calculating 'value in use', it also requires that calculations should be based on exchange rates current at the time of the assessment.

For operations with a functional currency other than the US Dollar, the impairment review is undertaken in the relevant functional currency. These estimates are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36 'Impairment of assets'.

The discount rate applied is based upon a post-tax discount rate that reflects current market assessments of the time value of money and the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

2.10. Deferred stripping costs
In open pit mining operations, removal of overburden and other waste materials, referred to as stripping, is required to obtain access to the ore body.

Stripping costs incurred during the development of the mine are capitalised as part of mine development costs and are subsequently depreciated over the life of a mine on a units of production basis.

Stripping costs incurred during the production phase of a mine are deferred as part of cost of inventory and are written off to the income statement in the period over which economic benefits related to the stripping activity are realised where this is the most appropriate basis for matching the costs against the related economic benefits.

Where, during the production phase, further development of the mine requires a phase of unusually high overburden removal activity that is similar in nature to pre-production mine development, such stripping costs are considered in a manner consistent with stripping costs incurred during the development of the mine before the commercial production commences.

In gold alluvial operations, stripping activity is sometimes undertaken in preparation for the next season. Stripping costs are then deferred as part of cost of inventory and are written off to the income statement in the following year to match related production.

2.11. Provisions for close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or constructive obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or unwinding of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance sheet date. All other costs of continuous rehabilitation are charged to the income statement as incurred.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy set out above.

2.12. Financial instruments

Financial instruments recognised in the balance sheet include cash and cash equivalents, other investments, trade and other receivables, borrowings, derivatives, and trade and other payables.

Financial instruments are initially measured at fair value when the Group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit or loss. The subsequent measurement of financial instruments is dealt with below.

Financial assets

Financial assets are classified into the following specified categories: ‘financial assets at fair value through profit or loss’, ‘held-to-maturity investments’, ‘available-for-sale financial assets’ and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised at trade-date, the date on which the Group commits to purchase the asset. The Group does not hold any financial assets which meet the definition of ‘held-to-maturity investments’.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included within non-current assets unless the investment matures or management intends to dispose of them within 12 months of the balance sheet date. Available-for-sale financial assets are initially measured at cost and subsequently carried at fair value. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of other reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets fixed or determinable payments that are not quoted on an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and are measured at cost which is deemed to be fair value as they have a short-term maturity.

Trade receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Impairment of trade receivables is established when there is objective evidence as a result of a loss event that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is recognised in the income statement.

Other investments
Listed investments and unlisted equity investments, other than investments in subsidiaries, joint ventures and associates, are classified as available-for-sale financial assets and subsequently measured at fair value. Fair values for unlisted equity investments are estimated using methods reflecting the economic circumstances of the investee. Equity investments for which fair value cannot be measured reliably are recognised at cost less impairment. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under within Other reserves in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to the income statement as 'gains and losses from investment securities'.

Financial liabilities
Financial liabilities, other than derivatives, are measured on initial recognition at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative financial instruments
In accordance with IAS 39 the fair value of all derivatives is separately recorded on the balance sheet. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Derivatives embedded in other financial instruments or non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host-contract and the host contract is not carried at fair value. Embedded derivatives are recognised at fair value at inception. Any change to the fair value of the embedded derivatives is recognised in other finance gains or losses within the income statement. Embedded derivatives which are settled net are disclosed in line with the maturity of their host contracts.

The fair value of embedded derivatives is determined by using market prices where available. In other cases, fair value will be calculated using quotations from independent financial institutions, or by using appropriate valuation techniques.

Hedge accounting
The Group designates certain derivative financial instruments as hedging relationships. For the purposes of hedge accounting, hedging relationships may be of three types:

- fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability;
- cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; 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.

2.13. Provisions

Provisions are recognised when the Group has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

2.14. Inventories

Inventories include the following major categories:

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

Inventories are valued at the lower of cost and net realisable value, with cost being determined primarily on a weighted average cost basis.

Provisions are recorded to reduce ore in stockpiles, work in process and finished goods inventory to net realisable value where the net realisable value is lower than relevant inventory cost at the balance sheet date. Net realisable value is determined with reference to relevant market prices less estimated costs to complete production and bring the inventory into its saleable form. Provisions are also recorded to reduce mine operating supplies to net realisable value, which is generally determined with reference to salvage or scrap value, when it is determined that the supplies are obsolete. Provisions are reversed to reflect subsequent recoveries in net realisable value where the inventory is still on hand at the balance sheet date.

2.15. Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.16. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, stated at the invoiced value net of discounts and value added tax.

Sales of gold and silver

The majority of the Group's revenue is derived from the sale of refined gold and silver, the latter being a by-product of gold production. Revenue from the sale of gold and silver is recognised when:

- the risks and rewards of ownership as specified in individual contracts are transferred to the buyer;
- the Group retains neither a continuing involvement nor control over the goods sold;
- the amount of revenue can be measured reliably; 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:

- engineering and construction contracts: When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. When it is probable that contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately;
- revenue from sales of goods is recognised when the goods are delivered to the buyer and the risks and benefits associated with ownership are transferred to the buyer; and
- rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2.17. Borrowing costs

Borrowing costs are generally expensed as incurred except where they relate to the financing of acquisition, construction or development of qualifying assets, which are mining projects under development that necessarily take a substantial period of time to get prepared for their intended use. Such borrowing costs are capitalised and added to mine development costs of the mining project when the decision is made to proceed with the development of the project and until such time when the project is substantially ready for its intended use (which is when commercial production is ready to commence) or if active development is suspended or ceases.

To the extent that funds are borrowed to finance a specific mining project, borrowing costs capitalised represent the actual borrowing costs incurred. To the extent that funds are borrowed for the general purpose, borrowing costs capitalised are determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of capital expenditure incurred to develop the relevant mining project during the period.

2.18. Taxation
Tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case, the tax is also recognised in the statement of comprehensive income or directly in equity, respectively.

Current tax is the tax expected to be payable on the taxable income for the year calculated using rates that have been enacted or substantively enacted by the balance sheet date. It includes adjustments for tax expected to be payable or recoverable in respect of previous periods.

Full provision is made for deferred taxation on all temporary differences existing at the balance sheet date with certain limited exceptions. Temporary differences are the difference between the carrying value of an asset or liability and its tax base. The main exceptions to this principle are as follows:

– Tax payable on the future remittance of the past earnings of subsidiaries, associates and jointly controlled entities is provided for except where the Company is able to control the remittance of profits and it is probable that there will be no remittance in the foreseeable future.
– Deferred tax is not provided on the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination, such as on the recognition of a provision for close down and restoration costs and the related asset or on the inception of finance lease.
– Deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is provided in respect of fair value adjustments on acquisitions. These adjustments may relate to assets such as mining rights that, in general, are not eligible for income tax allowances. In such cases, the provision for deferred tax is based on the difference between the carrying value of the asset and its nil income tax base.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates that have been enacted, or substantively enacted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. Areas of judgement in applying accounting policies and key sources of estimation uncertainty

When preparing the consolidated financial statements in accordance with the accounting policies as set out in note 2, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances and previous experience. Actual results may differ from these estimates under different assumptions and conditions.

3.1. Critical accounting judgements
Taxation
The Group is subject to income tax in the UK, Russian Federation and Cyprus. Assessing the outcome of uncertain tax positions requires judgements to be made. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due, such estimates are based on the status of ongoing discussions with the relevant tax authorities and advice from independent tax advisers. Details of tax charge for the year are set out in note 10.

Deferred tax assets, including those arising from tax losses carried forward for the future tax periods, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered. The likelihood of such recoverability is dependent on the generation of sufficient future taxable profits which a relevant deferred tax asset can be utilised to offset.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, the carrying amount of recognised deferred tax assets may require adjustment, resulting in a corresponding charge or credit to the income statement.

Details of deferred tax disclosures out in note 21.

3.2. Key sources of estimation uncertainty
Ore reserve estimates
The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) and the internally used Russian Classification System, adjusted to conform with the mining activity to be undertaken under the Group mining plan. Both the JORC Code and the Russian Classification System require the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method (note 13), impairment charges (note 6) and for forecasting the timing of the payment of close down and restoration costs (note 22). Also, for the purposes of impairment reviews and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or economic assumptions used to estimate reserves change. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values due to changes in estimated future cash flows (note 6).
- Depreciation charged in the income statement where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine.
- Provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs (note 22).
- Carrying value of deferred tax assets and liabilities (note 21) where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

Exploration and evaluation costs
The Group's accounting policy for exploration and evaluation expenditure results in exploration and evaluation expenditure being capitalised for those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure being capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to the income statement. Details of exploration and evaluation assets are set out in note 12.

Deferred stripping costs
The calculation of deferred stripping costs requires the use of estimates to assess the improved access to the ore to be mined in future periods. Changes to the Group's mining plan and pit design may result in changes to the timing of realisation of the stripping activity. As a result, there could be significant adjustments to the amounts of deferred stripping costs capitalised and their classification between current and non-current assets. Details of deferred stripping costs capitalised are set out in note 15.

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

The recoverable amount of an asset, or cash-generating unit ('CGU'), is measured as the higher of fair value less costs to sell and value in use.

Management necessarily apply their judgement in allocating assets to CGUs as well as in making assumptions to be applied within the value in use calculation. The key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out in note 6.

Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets. The impairment assessments are sensitive to changes in commodity prices, foreign exchange rates and discount rates. Changes to these assumptions would result in changes to conclusions in relation to impairment, which could have a significant effect on the consolidated financial statements. Details of impairment and/or impairment reversals are set out in note 6.

Close down and restoration costs
Costs associated with restoration and rehabilitation of mining sites are typical for extractive industries and are normally incurred at the end of the life of the mine. Provision is recognised for each mining site for such costs discounted to their net present value, as soon as the obligation to incur such costs arises. The costs are estimated on the basis of the scope of site restoration and rehabilitation activity in accordance with the mine closure plan and represent management's best estimate of the expenditure that will be incurred. Estimates are reviewed annually as new information becomes available.

The initial provision for close down and restoration costs together with other movements in the provision, including those resulting from updated cost estimates, changes to the estimated lives of the mines, and revisions to discount rates are capitalised within 'mine development costs' or 'mining assets' of property, plant and equipment. Capitalised costs are depreciated over the life of the mine they relate to and the provision is increased each period via unwinding the discount on the provision. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the asset and the provision.

The actual costs may be different from those estimated due to changes in relevant laws and regulations, changes in prices as well as changes to the restoration techniques. The actual timing of cash outflows may be also different from those estimated due to changes in the life of the mine as a result of changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provision for close down and restoration costs established which would affect future financial results.

Details of provision for close down and restoration costs are set out in note 22.

Going Concern
Details about the Group's ability to continue as a going concern are set out in note 2.1.

4. Segment information

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

Corporate and Other segment amalgamates corporate administration, in-house geological exploration and construction and engineering expertise, engineering and scientific operations and other supporting in-house functions as well as various gold projects and other activities that do not meet the reportable segment criteria.

Reportable 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

2017	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Consolidated US$'000
Revenue						
Gold [(a)]	202,392	40,687	83,098	228,915	–	555,092
Silver	743	121	42	185	–	1,091
Other external revenue	–	–	–	–	31,237	31,237
Inter segment revenue	815	–	1,001	327	154,325	156,468
Intra group eliminations	(815)	–	(1,001)	(327)	(154,325)	(156,468)
Total Group revenue from external customers	203,135	40,808	83,140	229,100	31,237	587,420
Operating expenses and income						
Operating cash costs	(127,657)	(39,988)	(61,079)	(98,354)	(30,030)	(357,108)
Accrual for additional mining tax [(b)]	(6,511)	(2,255)	(2,780)	(8,306)	–	(19,852)
Depreciation	(28,936)	(7,112)	(12,607)	(44,346)	(215)	(93,216)
Central administration expenses	–	–	–	–	(39,944)	(39,944)
Reversal of impairment/ (impairment) of ore stockpiles	3,589	(175)	(304)	1,592	–	4,702
Impairment of gold in circuit	(2,594)	(733)	(563)	–	–	(3,890)
Impairment of non-trading loans	–	–	–	–	(629)	(629)
Total operating expenses [(c)]	(162,109)	(50,263)	(77,333)	(149,414)	(70,818)	(509,937)
Share of results of associates	–	–	–	–	35,208	35,208
Segment result	41,026	(9,455)	5,807	79,686	(4,373)	112,691
Foreign exchange losses						(746)
Operating profit						111,945
Investment income						760
Interest expense						(25,905)
Other finance gains						2,199
Other finance losses						(28,470)
Taxation						(19,063)
Profit for the period						41,466
Segment assets	413,757	11,117	489,986	379,040	154,281	1,448,181
Segment liabilities	(35,777)	(7,583)	(14,474)	(35,949)	(74,781)	(168,564)
Deferred tax – net						(106,271)
Unallocated cash						2,236
Loans given						–
Borrowings						(596,474)
Net assets						579,108
Other segment information						
Additions to non-current assets:						
Exploration and evaluation expenditure capitalised within intangible assets	5,592	–	44	127	–	5,763
Capital Expenditure◆	44,349	37	29,700	10,000	2,070	86,156
Other items capitalised [(d)]	26,438	355	8,540	1,052	–	36,385
Average number of employees	1,670	990	1,021	1,535	3,303	8,519

(a) Including US$0.8 million contribution from the cash flow hedge.

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

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

(d) Interest capitalised and close down and restoration costs (note 13).

◆ Go to pages 197 to 203 for more information on our APMs.

4. Segment information continued

2016	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Consolidated (restated) US$'000
Revenue						
Gold[e]	163,514	46,692	67,107	211,155	–	488,468
Silver	958	275	101	207	–	1,541
Other external revenue	–	–	–	–	50,675	50,675
Inter segment revenue	–	–	1,233	390	101,032	102,655
Intra group eliminations	–	–	(1,233)	(390)	(101,032)	(102,655)
Total Group revenue from external customers	164,472	46,967	67,208	211,362	50,675	540,684
Operating expenses and income						
Operating cash costs	(85,273)	(33,777)	(45,243)	(100,979)	(48,995)	(314,267)
Depreciation	(38,776)	(6,586)	(13,632)	(45,729)	(529)	(105,252)
Central administration expenses	–	–	–	–	(32,623)	(32,623)
Impairment of exploration and evaluation assets	–	–	–	(9,155)	–	(9,155)
(Impairment)/reversal of impairment of ore stockpiles	(6,110)	(1,002)	5,826	123	–	(1,163)
Gain on disposal of non-trading loans	–	–	–	–	6,724	6,724
Gain on disposal of subsidiaries	–	–	–	–	791	791
Total operating expenses[f]	(130,159)	(41,365)	(53,049)	(155,740)	(74,632)	(454,945)
Share of results of associates	–	–	–	–	(3,581)	(3,581)
Segment result	34,313	5,602	14,159	55,622	(27,538)	82,158
Foreign exchange losses						(5,158)
Operating profit						77,000
Investment income						556
Interest expense						(60,976)
Other finance gains						11,976
Other finance losses						(1,548)
Taxation						4,698
Profit for the period						31,706
Segment assets	444,611	19,724	402,878	390,646	133,894	1,391,753
Segment liabilities	(13,387)	(4,034)	(8,963)	(15,975)	(54,262)	(96,621)
Deferred tax – net						(119,028)
Unallocated cash						4,843
Loans given						598
Borrowings						(611,212)
Net assets						570,333
Other segment information						
Additions to non-current assets:						
Exploration and evaluation expenditure capitalised within intangible assets	2,219	–	838	4,082	217	7,356
Other additions to intangible assets	–	–	–	–	–	–
Capital Expenditure◆	14,052	96	2,765	7,488	1,380	25,781
Other items capitalised[g]	349	177	389	1,262	–	2,177
Average number of employees	1,658	964	926	1,450	3,066	8,064

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

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

(g) Close down and restoration costs (note 13).

◆ Go to pages 197 to 203 for more information on our APMs.

4. Segment information continued

Entity wide disclosures

Revenue by geographical location[(a)]

	2017 US$'000	2016 US$'000
Russia and CIS	587,361	540,606
Other	59	78
	587,420	540,684

(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)]

	2017 US$'000	2016 US$'000
Russia	1,181,197	1,090,847
Other	45	43
	1,181,242	1,090,890

(b) Excluding financial instruments and deferred tax assets.

Information about major customers

During the years ended 31 December 2017 and 2016, 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 2017 are revenues of US$555 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$414 million to Sberbank of Russia and US$142 million to VTB (2016: US$488 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$292 million to Sberbank of Russia and US$197 million to VTB). The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management considers there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

5. Revenue

	2017 US$'000	2016 US$'000
Sales of goods	571,666	522,491
Engineering and construction contracts	15,045	17,531
Rental income	709	662
	587,420	540,684
Investment income	760	556
	588,180	541,240

6. Operating expenses and income

	2017 US$'000	2016 US$'000
Net operating expenses [(a)]	450,324	419,519
Accrual for additional mining tax [(b)]	19,852	–
Impairment of exploration and evaluation assets	–	9,155
(Reversal of impairment)/ impairment of ore stockpiles [(a)]	(4,702)	1,163
Impairment of gold in circuit	3,890	–
Central administration expenses [(a)]	39,944	32,623
Foreign exchange losses	746	5,158
Impairment of non-trading loans	629	–
Gain on disposal of non-trading loans	–	(6,724)
Gain on disposal of subsidiaries	–	(791)
	510,683	460,103

(a) As set out below.

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

Net operating expenses

	2017 US$'000	2016 US$'000
Depreciation	93,216	105,252
Staff costs	80,071	63,022
Materials	108,201	100,638
Fuel	43,793	40,621
External services	38,719	25,619
Mining tax	–	14,713
Electricity	30,074	23,305
Smelting and transportation costs	794	699
Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production	7,456	(22,475)
Taxes other than income	5,886	6,352
Insurance	8,214	6,409
Professional fees	297	877
Office costs	307	324
Operating lease rentals	3,352	3,173
Business travel expenses	1,274	1,434
Provision for impairment of trade and other receivables	364	282
Bank charges	258	205
Goods for resale	11,802	24,186
Other operating expenses	16,246	24,883
	450,324	419,519

6. Operating expenses and income continued

Central administration expenses

	2017 US$'000	2016 US$'000
Staff costs	23,556	17,067
Professional fees	6,854	8,214
Insurance	928	789
Operating lease rentals	1,920	1,893
Business travel expenses	1,142	881
Office costs	533	489
Other	5,011	3,290
	39,944	32,623

Impairment charges

Impairment of mining assets and exploration and evaluation assets

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and supporting in-house service companies and concluded no impairment was required as at 31 December 2017. As at 31 December 2017, all exploration and evaluation assets on the balance sheet related to the areas adjacent to the existing mines (note 12).

The forecast future cash flows are based on the Group's mining plan that assumes POX Hub completion in the year 2018. The other key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out below:

	Year ended 31 December 2017	Year ended 31 December 2016
Long term gold price	US$1,300/oz	US$1,200/oz
Discount rate [a]	8%	8%
RUB : US$ exchange rate	RUB60.0 : US$1	RUB60.0 : US$1

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 11.6% (2016: 10.1%).

With all other assumptions being constant, changes to the aforementioned key assumptions could potentially result in impairment of certain mining assets as set out below.

	Potential impairment
10% decrease in long-term gold price	US$29 million
10% increase in discount rate	Recoverable amount exceeds carrying amount
10% strengthening of RUB/US$ exchange rate	Recoverable amount exceeds carrying amount

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 2017			Year ended 31 December 2016		
	Pre-tax impairment charge/ (reversal of impairment) US$'000	Taxation US$'000	Post-tax impairment charge/ (reversal of impairment) US$'000	Pre-tax impairment charge/ (reversal of impairment) US$'000	Taxation US$'000	Post-tax impairment charge/ (reversal of impairment) US$'000
Pokrovskiy	175	(35)	140	1,002	(200)	802
Pioneer	(3,589)	717	(2,872)	6,110	(1,223)	4,887
Malomir	304	(61)	243	(5,826)	1,165	(4,661)
Albyn	(1,592)	271	(1,321)	(123)	25	(98)
	(4,702)	892	(3,810)	1,163	(233)	930

7. Auditor's remuneration

The Group, including its overseas subsidiaries, obtained the following services from the Company's auditor and their associates:

	2017 US$'000	2016 US$'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	568	577
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	296	285
For the audit of subsidiary statutory accounts pursuant to legislation [(a)]	57	55
	921	917
Non-audit fees		
Other services pursuant to legislation – interim review	231	185
Fees for reporting accountants services [(b)]	202	1,153
Tax services	12	–
	445	1,338

(a) Including the statutory audit of subsidiaries in the UK and Cyprus.

(b) Fees payable in relation to the issuance of the US$500 million 8.125 per cent Guaranteed Notes (note 20) (2016: Fees payable in relation the Proposed Acquisition announced on 28 April 2016).

8. Staff costs

	2017 US$'000	2016 US$'000
Wages and salaries	81,619	61,996
Social security costs	21,696	17,732
Pension costs	168	221
Share-based compensation	144	140
	103,627	80,089
Average number of employees	8,519	8,064

9. Financial income and expenses

	2017 US$'000	2016 US$'000
Investment income		
Interest income	760	556
	760	556
Interest expense		
Interest on bank loans	(42,701)	(48,934)
Interest on notes	(5,308)	–
Interest on convertible bonds	(12,221)	(11,867)
	(60,230)	(60,801)
Interest capitalised	34,592	–
Unwinding of discount on environmental obligation	(267)	(175)
	(25,905)	(60,976)
Other finance gains		
Fair value gain on derivative financial instruments [a]	-	7,434
Financial guarantee fee [b]	2,199	4,542
	2,199	11,976
Other finance losses		
Loss on bank debt refinancing [c]	(21,577)	(1,548)
Fair value loss on derivative financial instruments [a]	(6,893)	–
	(28,470)	(1,548)

(a) Result from re-measurement of the conversion option of the Convertible Bonds to fair value (note 20) and the Call Option over the Company's shares to fair value (note 18).
(b) Note 25.
(c) Note 20.

10. Taxation

	2017 US$'000	2016 US$'000
Current tax		
Russian current tax	24,357	29,788
	24,357	29,788
Deferred tax		
Reversal of timing differences [a]	(5,294)	(34,486)
Total tax charge/(credit)	19,063	(4,698)

(a) Including effect of foreign exchange movements in respect of deductible temporary differences of US$(7.5) million (year ended 31 December 2016: US$(26.0) million) which primarily arises as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

The charge for the year can be reconciled to the loss before tax per the income statement as follows:

	2017 US$'000	2016 US$'000
Profit before tax	60,529	27,008
Less: share of results of associates	(35,208)	3,581
Profit before tax (excluding associates)	25,321	30,589
Tax on profit (excluding associates) at the Russian corporation tax rate of 20% (2016: 20%)	5,064	6,118
Effect of the reduced corporation tax rate [b]	(2,034)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	912	36
Tax effect of expenses that are not deductible for tax purposes [c]	3,043	1,765
Tax effect of tax losses for which no deferred income tax asset was recognised [d]	25,237	14,778
Utilisation of previously unrecognised tax losses	(288)	(2,574)
Foreign exchange movements in respect of deductible temporary differences [e]	(7,512)	(26,025)
Effect of the reduced corporation tax rate on previously recognised deferred tax [b]	(4,283)	–
Other adjustments	(1,076)	1,204
Tax charge/(credit) for the period	19,063	(4,698)

(b) Under the Russian Federal Law 144-FZ dated 23 May 2016 taxpayers who are participants to the Regional Investment Projects ("RIP") have the right to apply the reduced corporation tax rate if certain conditions are met. In 2017, LLC Albynskiy Rudnik has received tax relief as a RIP participant and is entitled to the reduced statutory corporation tax rate of 17% for the period of 10 years, subject to eligibility criteria. Relevant deferred tax balances were recalculated by applying the reduced tax rate accordingly.

(c) Primarily relate to the result of re-measurement of the conversion option of the Convertible Bonds to fair value (note 9) and certain professional fees incurred in relation to corporate projects.

(d) Primarily relate to central administration expenses and interest expense incurred in the UK.

(e) Foreign exchange movements arise as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

Tax laws, regulations and court practice applicable to the Group are complex and subject to frequent change, varying interpretations and inconsistent and selective enforcement. There are a number of practical uncertainties associated with the application of relevant tax legislation and there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be subject to tax claims and exposures. The Directors do not anticipate that these exposures will have a material adverse effect upon the Group's financial position.

11. Earnings per share

	2017 US$'000	2016 US$'000
Profit for the period attributable to equity holders of Petropavlovsk PLC	42,378	33,719
Interest expense on convertible bonds (a)	–	–
Profit used to determine diluted earnings per share	42,378	33,719
	No of shares	No of shares
Weighted average number of Ordinary Shares	3,303,768,532	3,302,148,536
Adjustments for dilutive potential Ordinary Shares (a)	–	–
Weighted average number of Ordinary Shares for diluted earnings per share	3,303,768,532	3,302,148,536
	US$	US$
Basic profit per share	0.01	0.01
Diluted profit per share	0.01	0.01

(a) Convertible bonds which could potentially dilute basic profit/(loss) per ordinary share in the future are not included in the calculation of diluted profit/(loss) per share because they were anti-dilutive for the year ended 31 December 2017 and 2016.

12. Exploration and evaluation assets

	Flanks of Pioneer US$'000	Flanks of Albyn US$'000	Flanks of Malomir US$'000	Other (a) US$'000	Total US$'000
At 1 January 2017	1,750	33,949	12,148	1,423	49,270
Additions	5,592	127	44	–	5,763
Transfer to mining assets	(1,515)	–	–	–	(1,515)
At 31 December 2017	5,827	34,076	12,192	1,423	53,518

(a) Amounts capitalised in respect of limestone, an essential reagent the pressure oxidation process, and underground water deposits to be used for the POX Hub operations.

	Visokoye US$'000	Flanks of Pioneer US$'000	Flanks of Albyn US$'000	Flanks of Malomir US$'000	Other (b) US$'000	Total US$'000
At 1 January 2016	16,251	–	39,080	11,375	2,287	68,993
Additions	213	1,750	4,082	776	535	7,356
Impairment (c)	–	–	(9,155)	–	–	(9,155)
Reallocation and other transfers	–	–	(58)	(3)	(269)	(330)
Disposal of subsidiary	(16,464)	–	–	–	–	(16,464)
Disposal	–	–	–	–	(1,130)	(1,130)
At 31 December 2016	–	1,750	33,949	12,148	1,423	49,270

(b) Amounts capitalised in respect of limestone, an essential reagent the pressure oxidation process, and underground water deposits to be used for the POX Hub operations.

(c) Impairment charges recorded against associated exploration and evaluation costs following the decision to suspend exploration on the Kharginskoye ore field, an immediate extension of the Albyn deposit.

13. Property, plant and equipment

	Mining assets US$'000	Non-mining assets US$'000	Capital construction in progress [c] (US$'000	Total US$'000
Cost				
At 1 January 2016	1,861,891	197,698	341,587	2,401,176
Additions	19,470	885	5,426	25,781
Close down and restoration cost capitalised [note 22]	2,177	–	–	2,177
Transfers from capital construction in progress	2,523	159	(2,682)	–
Disposals	(19,645)	(6,235)	(77)	(25,957)
Disposal of subsidiaries	(919)	(2,052)	(2,436)	(5,407)
Reallocation and other transfers	9,844	(808)	(8,856)	180
Foreign exchange differences	–	3,907	–	3,907
At 31 December 2016 [d]	1,875,341	193,554	332,962	2,401,857
Additions	34,725	2,048	49,383	86,156
Interest capitalised [a]	–	–	34,592	34,592
Close down and restoration cost capitalised [note 22]	1,793	–	–	1,793
Transfer from exploration and evaluation assets [note 12]	1,515	–	–	1,515
Transfers from capital construction in progress [b]	22,397	4,042	(26,439)	–
Disposals	(8,856)	(4,731)	(72)	(13,659)
Reallocation and other transfers	1,727	(1,897)	170	–
Foreign exchange differences	–	1,245	4	1,249
At 31 December 2017 [d]	1,928,642	194,261	390,600	2,513,503
Accumulated depreciation and impairment				
At 1 January 2016	1,182,974	173,375	6,484	1,362,833
Charge for the year	100,934	5,034	–	105,968
Disposals	(16,748)	(6,036)	–	(22,784)
Disposal of subsidiaries	–	(1,127)	–	(1,127)
Reallocation and other transfers	662	(662)	–	–
Foreign exchange differences	–	3,173	–	3,173
At 31 December 2016	1,267,822	173,757	6,484	1,448,063
Charge for the year	90,862	2,708	–	93,570
Disposals	(8,062)	(5,196)	–	(13,258)
Reallocation and other transfers	192	2,213	(2,405)	–
Foreign exchange differences	–	1,014	–	1,014
At 31 December 2017	1,350,814	174,496	4,079	1,529,389
Net book value				
At 31 December 2016 [e]	607,519	19,797	326,478	953,794
At 31 December 2017 [e]	577,828	19,765	386,521	984,114

(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 10% (2016: nil).

(b) Being costs primarily associated with continuous development of Malomir and Pioneer projects.

(c) Including US$277.6 million costs associated with the POX Hub project (31 December 2016: US$200.3 million).

(d) Including US$215.6 million of fully depreciated property, plant and equipment (31 December 2016: US$137.4 million).

(e) Property, plant and equipment with a net book value of US$nil million (31 December 2016: US$110.0 million) have been pledged to secure borrowings of the Group.

14. Investments in associates

	2017 US$'000	2016 US$'000
IRC Limited ('IRC')	70,890	36,140
	70,890	36,140

Summarised financial information for those associates that are material to the Group is set out below.

	IRC Year ended 31 December 2017 US$'000	IRC Year ended 31 December 2016 US$'000
Non-current assets		
Exploration and evaluation assets	7,259	6,966
Property, plant and equipment	458,624	246,191
Prepayments for property, plant and equipment	494	87,499
Other non-current assets	4,992	4,773
	471,369	345,429
Current assets		
Cash and cash equivalents	8,997	31,342
Other current assets	54,026	44,184
	63,023	75,526
Current liabilities		
Borrowings [(a)]	61,309	66,147
Other current liabilities	37,729	21,414
	99,038	87,561
Non-current liabilities		
Borrowings [(a)]	162,078	177,239
Other non-current liabilities	33,722	34,431
	195,800	211,670
Net assets	239,554	121,724

(a) On 13 December 2010, K&S entered into a project finance facility agreement with the Industrial and Commercial Bank of China Limited ('ICBC') (the 'ICBC Facility Agreement') pursuant to which ICBC would lend US$340 million to K&S to be used to fund the construction of the IRC's mining operations at K&S. The facility is guaranteed by the Company (note 25) and originally was repayable semi-annually in 16 instalments US$21.25 million each, starting from December 2014 and is fully repayable by June 2022. On 27 February 2017, ICBC agreed to restructure two repayment instalments originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US$42.5 million evenly into five subsequent semi-annual repayment instalments. As a result, each of the repayment instalments due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 increased by US$8.5 million to an amount equal to US$29.75 million. The outstanding loan principal was US$233.75 million as at 31 December 2017 and 2016. As at 31 December 2017 and 2016, there was no undrawn finance facility available under the ICBC Facility Agreement. The loan is carried at amortised cost with effective interest rate 6.41% per annum (2016: 6.13%). ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2017, inclusive. As at 31 December 2017 and 31 December 2016, The Group's entire 31.1% ownership in the issued capital of IRC was pledged to ICBC as security for the obligations of the Company as guarantor and in consideration for the waiver of financial covenants under the ICBC facility.

14. Investments in associates continued

	IRC Year ended 31 December 2017 US$'000	IRC Year ended 31 December 2016 US$'000
Revenue	109,265	16,467
Net operating income/(expenses)	25,657	(34,503)
Including		
Depreciation	(14,618)	(1,155)
Reversal of impairment of mining assets	129,614	–
Impairment of ore stockpiles	–	(841)
Impairment of investments in joint ventures	–	(47)
Foreign exchange losses	(859)	(3,440)
Investment income	114	413
Interest expense	(22,410)	(1,189)
Taxation	590	(315)
Profit/(loss) for the period	113,216	(19,127)
Other comprehensive (loss)/profit	(1,470)	1,555
Total comprehensive profit/(loss)	111,746	(17,572)

15. Inventories

	2017 US$'000	2016 US$'000
Current		
Construction materials	6,792	5,072
Stores and spares	57,226	57,699
Ore in stockpiles [(a), (c)]	37,496	17,104
Gold in circuit	24,088	70,996
Deferred stripping costs	39,767	26,187
Bullion in process	391	1,189
Other	6,892	5,019
	172,652	183,266
Non-current		
Ore in stockpiles [(a), (b), (c)]	72,720	51,686
	72,720	51,686

(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 2017, ore in stockpiles include balances in the aggregate of US$31.1 million carried at net realisable value (2015: US$45.5 million).

16. Trade and other receivables

	2017 US$'000	2016 US$'000
Current		
VAT recoverable	20,438	30,265
Advances to suppliers	11,343	11,394
Prepayments for property, plant and equipment	5,809	694
Trade receivables [(a)]	9,297	6,160
Other debtors [(b)]	28,943	41,917
	75,830	90,430

(a) Net of provision for impairment of US$0.2 million (2016: US$0.2 million). Trade receivables are generally due for settlement between three and twelve months.

(b) Net of provision for impairment of US$1.3 million (2016: US$1.3 million).

There is no significant concentration of credit risk with respect to trade and other receivables. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by the Board of Directors. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

17. Cash and cash equivalents

	2017 US$'000	2016 US$'000
Cash at bank and in hand	8,109	10,284
Short term bank deposits	3,306	2,358
	11,415	12,642

18. Derivative financial instruments

	31 December 2017		31 December 2016	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Forward gold contracts – cash flow hedge [(a), (b), (c)]	–	(32,477)	7,478	–
Call Option over the Company's shares [(d)]	–	(3,097)	–	(3,064)
Conversion option [(e), (f)]	–	(14,110)	–	(7,250)
	–	(49,684)	7,478	(10,314)

(a) Forward contracts to sell an aggregate of 400,000 ounces of gold at an average price of US$1,252 per ounce are outstanding as at 31 December 2017 (31 December 2016: 50,006 ounces of gold at an average price of US$1,303 per ounce).

(b) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:
- *gold forward curves observable at quoted intervals; and*
- *observable credit spreads.*

(c) The hedged forecast transactions are expected to occur at various dates during the period to December 2019.

Gain and losses recognised in the hedging reserve in equity as at the reporting date will be recognised in 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 2017 and 2016.

(d) Cash settled call option issued in relation to 3.6 per cent. of the outstanding aggregate ordinary share capital in the Company exercisable between December 2018 and June 2019 at strike price of £0.068.

(e) Note 20.

(f) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:
- *the Group's credit risk;*
- *historic share price volatility;*
- *the conversion price;*
- *time to maturity; and*
- *risk free rate.*

19. Trade and other payables

	2017 US$'000	2016 US$'000
Trade payables	39,902	24,110
Payables for property, plant and equipment	10,389	958
Advances from customers	826	2,148
Advances received on resale and commission contracts [a]	1,029	1,847
Accruals and other payables	36,187	26,575
	88,333	55,638

(a) Amounts included in advances received on resale and commission contracts at 31 December 2017 and 31 December 2016 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 to their fair value.

20. Borrowings

	2017 US$'000	2016 US$'000
Borrowings at amortised cost		
Notes [a]	497,747	–
Convertible bonds [b]	91,590	88,369
Bank loans [c]	7,137	522,843
	596,474	611,212
Amount due for settlement within 12 months	7,137	85,306
Amount due for settlement after 12 months	589,337	525,906
	596,474	611,212

(a) US$500 million Guaranteed Notes due for repayment on 14 November 2022 (the "Notes"), measured at amortised cost. The Notes were issued by the Group's wholly owned subsidiary Petropavlovsk 2016 Limited and are guaranteed by the Company and its subsidiaries JSC Pokrovskiy Rudnik, LLC Albynskiy Rudnik and LLC Malomirskiy Rudnik. The Notes have been admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange on 14 November 2017. The Notes carry a coupon of 8.125% payable semi-annually in arrears. The interest charged was calculated by applying an effective interest rate of 8.35%

(b) Debt component of the US$100 million Convertible Bonds due on 18 March 2020, measured at amortised cost. The interest charged was calculated by applying an effective interest rate of 13.89% to the liability component.

The conversion option of the US$100 million Convertible Bonds represents the fair value of the embedded option for the bondholders to convert into the equity of the Company (the "Conversion Right"). As the Company can elect to pay the cash value in lieu of delivering the Ordinary Shares following the exercise of the Conversion Right, the conversion option is a derivative liability. Accordingly, the conversion option is measured at fair value and is presented separately within derivative financial liabilities.

As at 31 December 2017, the fair value of debt component of the convertible bonds, considered as Level 2 of the fair value hierarchy, amounted to US$102.1 million (31 December 2016: US$97.3 million). Valuation incorporates the following inputs: the Group's credit risk, time to maturity and risk free rate.

As at 31 December 2017, the fair value of the convertible bonds, considered as Level 1 of the fair value hierarchy and calculated by applying the market traded price to the convertible bonds outstanding, amounted to US$116.3 million (31 December 2016: US$103.9 million).

(c) The weighted average interest rate during the year ended 31 December 2017 was 9.3% (2016: 9.0%).

The carrying value of the bank loans approximated their fair value at each period end.

As at 31 December 2017, there was no security and financial covenants attached to the bank loans (31 December 2016: Bank loans with an aggregate carrying value of US$233.1 million were secured against certain items of property, plant and equipment of the Group (note 13) and shares in subsidiaries held by Petropavlovsk PLC: 100% of LLC Albynskiy Rudnik; 89.73% of LLC Malomirskiy Rudnik; 100% of LLC Temi. Bank loans with an aggregate carrying value of $522.8 million contained certain financial covenants).

21. Deferred taxation

	2017 US$'000	2016 US$'000
At 1 January	119,028	152,799
Deferred tax credited to income statement [(a)]	(5,294)	(34,486)
Deferred tax (credited)/charged to equity	(7,505)	711
Exchange differences	42	4
At 31 December	106,271	119,028
Deferred tax liabilities	(106,271)	(119,028)
Net deferred tax liability	(106,271)	(119,028)

(a) Note 10.

	At 1 January 2017 US$'000	Charged/ (credited) to the income statement US$'000	Credited directly to equity US$'000	Exchange differences US$'000	At 31 December 2017 US$'000
Property, plant and equipment	96,024	(7,105)	–	59	88,978
Inventory	10,056	655	–	–	10,711
Exploration and evaluation assets	5,008	3,062	–	–	8,070
Fair value adjustments	129	(123)	–	–	6
Other temporary differences	7,811	(1,783)	(7,505)	(17)	(1,494)
	119,028	(5,294)	(7,505)	42	106,271

	At 1 January 2016 (restated) US$'000	Charged/ (credited) to the income statement US$'000	Credited directly to equity US$'000	Exchange differences US$'000	At 31 December 2016 (restated) US$'000
Property, plant and equipment	119,234	(23,255)	–	45	96,024
Inventory	16,172	(6,116)	–	–	10,056
Exploration and evaluation assets	7,255	(2,247)	–	–	5,008
Fair value adjustments	246	(117)	–	–	129
Other temporary differences	9,892	(2,751)	711	(41)	7,811
	152,799	(34,486)	711	4	119,028

As at 31 December 2017, the Group did not recognise deferred tax assets in respect of the accumulated tax losses comprising US$698.7 million that can be carried forward against future taxable income (2016: US$620.2 million). Tax losses of US$531.0 million arise primarily in the UK and can be carried forward indefinitely, tax losses of US$167.6 million arise in Russia and can be carried forward indefinitely.

As at 31 December 2017, the Group did not recognise deferred tax assets of US$2.7 million (2016: US$2.6 million) in respect of temporary differences arising on property, plant and equipment.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries and associates as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. As at 31 December 2017, statutory unremitted earnings comprised in aggregate US$943.8 million (2016: US$839.4 million).

22. Provision for close down and restoration costs

	2017 US$'000	2016 US$'000
At 1 January	19,152	17,184
Unwinding of discount	267	175
Change in estimates [(a)]	1,793	2,177
Disposal of subsidiary	–	(384)
Amounts charged against provision	(208)	–
At 31 December	21,004	19,152

(a) Primarily reflects the effect of change in the forecast the Russian Rouble to the US Dollar exchange rate following continued appreciation of the Russian Rouble during the year ended 31 December 2017 and 2016.

The Group recognised provisions in relation to close down and restoration costs for the following mining operations:

	2017 US$'000	2016 US$'000
Pokrovskiy [(a)]	3,195	2,842
Pioneer	2,876	3,155
Malomir	6,679	6,049
Albyn	8,254	7,106
	21,004	19,152

(a) With the expected closure of Pokrovskiy mine in 2018, as the site is being transformed into a key component of the POX Hub, the associated amounts of close down and restoration costs will be attributed to the POX project accordingly.

The provision recognised represents the present value of the estimated expenditure that will be incurred, which has been arrived at using the long-term risk-free pre-tax cost of borrowing. The expenditure arises at different times over the life of mine. The expected timing of significant cash outflows is between years 2019 and 2033, varying from mine site to mine site.

23. Share capital

	2017		2016	
	No of shares	US$'000	No of shares	US$'000
Allotted, called up and fully paid				
At 1 January	3,303,768,532	48,920	3,300,561,697	48,874
Issued during the period	–	–	3,206,835	46
At 31 December	3,303,768,532	48,920	3,303,768,532	48,920

The Company has one class of ordinary shares which carry no right to fixed income.

24. Notes to the cash flow statement

Reconciliation of profit before tax to operating cash flow

	2017 US$'000	2016 US$'000
Profit before tax	60,529	27,008
Adjustments for:		
Share of results of associate	(35,208)	3,581
Investment income	(760)	(556)
Interest expense	25,905	60,976
Other finance gains	(2,199)	(11,976)
Other finance losses	28,470	1,548
Share based payments	144	140
Depreciation	93,216	105,252
Impairment of exploration and evaluation assets	–	9,155
(Reversal of impairment)/ impairment of ore stockpiles	(4,702)	1,163
Effect of processing previously impaired stockpiles	(12,948)	(7,536)
Provision for impairment of trade and other receivables	364	282
Impairment of gold in circuit	3,890	–
Effect of processing previously impaired gold in circuit	(1,315)	–
Loss on disposals of property, plant and equipment	67	2,431
Gain on disposal of subsidiaries	–	(791)
Foreign exchange losses	746	5,158
Impairment of non-trading loans	629	–
Gain on disposal of non-trading loans	–	(6,724)
Other non-cash items	(75)	177
Changes in working capital:		
Decrease/(increase) in trade and other receivables	26,515	(25,828)
Decrease in inventories	4,323	298
Increase/(decrease) in trade and other payables	16,715	(37,745)
Net cash generated from operations	204,306	126,013

Reconciliation of cash flows used to purchase property, plant and equipment

	2017 US$'000	2016 US$'000
Additions to property, plant and equipment	86,156	25,781
Non-cash additions to property, plant and equipment:		
Transfer from materials	(600)	–
Capitalised depreciation	(207)	(155)
Finance lease additions	–	(919)
	85,349	24,707
Associated cash flows:		
Purchase of property, plant and equipment	82,295	22,004
(Increase)/decrease in prepayments for property, plant and equipment	(5,115)	1,147
Increase in payables for property, plant and equipment	9,431	954
Cash movements presented in other cash flow lines:		
Changes in working capital	(1,262)	602
	85,349	24,707

Non-cash transactions

An equivalent of US$14.5 million of VAT recoverable was offset against additional mining tax (note 6). There were no other significant non-cash transactions during the years ended 31 December 2017 and 2016.

25. Related parties

Related parties the Group entered into transactions with during the reporting period
PJSC Asian-Pacific Bank ('Asian-Pacific Bank'), LLC Insurance Company Helios Reserve ('Helios') and Peter Hambro Limited are considered to be related parties as members of key management had an interest in and collectively exercise significant influence over these entities until 22 June 2017 when the Group lost significant influence over these companies.

The Petropavlovsk Foundation for Social Investment (the 'Petropavlovsk Foundation') is considered to be a related party due to the participation of the key management of the Group in the governing board of the Petropavlovsk Foundation and their presence in its board of guardians.

IRC Limited and its subsidiaries (Note 31) are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties which the Group entered into during the years ended 31 December 2017and 2016 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	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Asian-Pacific Bank				
Other	3	22	35	102
	3	22	35	102
Trading transactions with other related parties				
Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control	–	66	1,301	3,514
Associates				
IRC Limited and its subsidiaries	85	69	2,062	1,996
	85	135	3,363	5,510

During the year ended 31 December 2017, the Group made US$0.2 million charitable donations to the Petropavlovsk Foundation (2016: US$0.2 million).

The outstanding balances with related parties at 31 December 2017 and 2016 are set out below.

	Amounts owed by related parties		Amounts owed to related parties	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Helios and other entities in which key management have interest and exercises a significant influence or control [(b)]	236	1,383	–	1
Asian-Pacific Bank [(b)]	–	1	–	–
IRC Limited and its subsidiaries	2,099	14,502 [(a)]	527	1,704
	2,335	15,886	527	1,705

(a) Including US$12.5 million advanced to IRC in December 2016. This balance was fully repaid in January 2017.

(b) PJSC Asian-Pacific Bank ("Asian-Pacific Bank"), LLC Insurance Company Helios Reserve ("Helios") and Peter Hambro Limited ceased being related parties to the Group from 22 June 2017.

Banking arrangements
The Group has current and deposit bank accounts with Asian-Pacific Bank.

The bank balances at 31 December 2017 and 2016 are set out below.

	2017 US$'000	2016 US$'000
Asian-Pacific Bank	– [(c)]	629

(c) PJSC Asian-Pacific Bank ("Asian-Pacific Bank") ceased being related party to the Group from 22 June 2017.

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Financing transactions
The Group has charged a fee for the provision of the guarantee to IRC (note 14), equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement and which amounted to US$4.1 million during the year ended 31 December 2017 (31 December 2016: US$4.5 million). The Guarantee fee principal outstanding amounted to an equivalent of US$6.4 million (31 December 2016:US$3.4 million).

Key management compensation
Key management personnel, comprising a group of 13 (2016: 15) 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.

	2017 US$'000	2016 US$'000
Wages and salaries	6,285	6,103
Pension costs	176	182
Share based compensation	136	610
	6,597	6,895

26. Analysis of Net Debt◆

	At 1 January 2017 US$'000	Disposal of subsidiaries US$'000	Net cash movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2017 US$'000
Cash and cash equivalents	12,642	–	(1,605)	378	–	11,415
Borrowings	(611,212)	–	87,191	–	(72,453)	(596,474)
Net Debt◆	(598,570)	–	85,586	378	(72,453)[a]	(585,059)

(a) Being amortisation of borrowings and the effect of the bank debt refinancing (note 20).

	At 1 January 2016 US$'000	Disposal of subsidiaries US$'000	Net cash movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2016 US$'000
Cash and cash equivalents	28,239[b]	(99)	(18,329)	2,831	–	12,642
Borrowings	(638,278)	–	84,710	173	(57,817)	(611,212)
Net Debt◆	(610,039)	(99)	66,381	3,004	(57,817)[c]	(598,570)

(b) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 29).
(c) Being amortisation of borrowings and the effect of the Refinancing.

◆ Go to pages 197 to 203 for more information on our APMs.

27. Financial instruments and financial risk management

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group consists of Net Debt◆ (as detailed in note 26) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2017, the capital comprised US$1.2 billion (2016: US$1.2 billion).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group adopts a modular approach in developing its projects in order to minimise upfront capital expenditure and related funding requirements. The Group manages in detail its funding requirements on a 12 month rolling basis and maintains a five year forecast in order to identify medium-term funding needs.

The Group is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

Categories of financial instruments

	2017 US$'000	2016 (restated) US$'000
Financial assets		
Cash and cash equivalents	11,415	12,642
Derivative financial instruments	–	7,478
Loans and receivables	37,615	50,331
Available-for-sale investments	347	1,105
Financial liabilities		
Trade and other payables – at amortised cost	71,653	43,688
Borrowings – at amortised cost	596,474	611,212
Derivative financial instruments	49,684	10,314
Financial liabilities	8,603	9,229

◆ Go to pages 197 to 203 for more information on our APMs.

27. Financial instruments and financial risk management continued

Financial risk management
The Group's activities expose it to interest rate risk, foreign currency risk, risk of change in the commodity prices, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, gold price risk, credit risk and investment of excess liquidity.

Interest rate risk
The Group's fixed rate borrowings and are carried at amortised cost. They are therefore not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. The Group does not have borrowings with variable interest rates.

Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from fluctuations in currencies the Group transacts, primarily US Dollars, GB Pounds Sterling and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at period end are set out below.

	Assets		Liabilities	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
Russian Roubles	40,101	39,404	55,740	35,675
US Dollars[a]	3,101	5,355	3,768	4,700
GB Pounds Sterling	2,560	2,444	3,173	813
EUR	–	54	763	18
Other currencies	–	49	313	288

(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% (2016: 25%), representing management's assessment of a reasonably possible change in foreign exchange currency rates. The analysis was applied to monetary assets and liabilities at the reporting dates denominated in respective currencies.

	2017 US$'000	2016 US$'000
Russian Rouble currency impact	3,910	932
US Dollar currency impact	167	164
GB Pounds Sterling currency impact	153	408
EUR currency impact	191	9
Other currencies	78	60

Credit risk
The Group's principal financial assets are cash and cash equivalents, comprising current accounts, amounts held on deposit with financial institutions and investments in money market and liquidity funds. In the case of deposits and investments in money market and liquidity funds, the Group is exposed to a credit risk, which results from the non-performance of contractual agreements on the part of the contract party. The Group is also exposed to a credit risk in relation to the amounts guaranteed under the ICBC facility (note 14).

The credit risk on liquid funds held in current accounts and available on demand is limited because the main counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Having performed a high level due diligence, management does not consider the credit risk associated with Asian-Pacific Bank and other banks without international credit rating to be high. Asian-Pacific Bank has a wide network of branches in the Amur region and, therefore, is extensively used by the entities of the precious metals segment (note 25).

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets recorded in the consolidated financial statements and the outstanding principal and interest under the ICBC facility (note 14).

The major financial assets at the balance sheet date are cash and cash equivalents held with the counterparties as set out below.

Counterparty	Credit rating	Carrying amount at 31 December 2017 US$'000	Carrying amount at 31 December 2016 US$'000
VTB	BB+	6,559	1,067
UBS	A+	1,493	212
AVANGARD	–	1,436	794
Sberbank	BBB-	914	3,936
Barclays	A	660	4,056
Asian-Pacific Bank	CCC	78	629
Bank of Cyprus	B-	11	365
Alfa-Bank	BB+	7	846

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 2017 and 2016, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18).

Liquidity risk
Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group constantly monitors the level of funding required to meet its short, medium and long term obligations. The Group also monitors compliance with restrictive covenants set out in various loan agreements (note 20) to ensure there is no breach of covenants resulting in associated loans become payable immediately.

Effective management of liquidity risk has the objective of ensuring the availability of adequate funding to meet short-term requirements and due obligations as well as the objective of ensuring a sufficient level of flexibility in order to fund the development plans of the Group's businesses.

The table below details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The amounts disclosed are the contractual undiscounted cash flows and so these balances will not necessarily agree with the amounts disclosed in the balance sheet. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	0 - 3 months US$'000	3 months - 1 year US$'000	1 - 2 years US$'000	2 - 3 years US$'000	3 - 6 years US$'000
2017					
Borrowings					
– Convertible bonds	–	–	–	100,000	–
– Notes	–	–	–	–	500,000
– Loans	–	4,006	–	–	–
Future interest payments [(a)]	2,395	51,229	49,625	42,875	81,250
Trade and other payables	48,396	23,257	–	–	–
	50,791	78,492	49,625	142,875	581,250
2016					
Borrowings					
– Convertible bonds	–	–	–	–	100,000
– Loans	1,524	83,782	46,255	86,475	311,759
Future interest payments [(a)]	13,257	38,670	44,589	40,322	74,730
Trade and other payables	34,658	9,030	–	–	–
	49,439	131,482	90,844	126,797	486,489

(a) Future interest payments have been estimated using interest rates applicable at 31 December. There are no borrowings that are subject to variable interest rates and, therefore, subject to change in line with the market rates.

28. Operating lease arrangements

The Group as a Lessee

The Group incurred rental expense, primarily associated with rent of office premises and rent of mining fleet, as set out below.

	2017 US$'000	2016 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	5,256	5,057

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:

	2017 US$'000	2016 US$'000
Expiring:		
Within one year	369	319
In two to five years	123	531
	492	850

The Group as a Lessor

The Group earned property rental income during the year of US$0.7 million (2016: US$0.7million) on buildings owned by its subsidiary Irgiredmet.

29. Capital commitments

At 31 December 2017, the Group had entered into contractual commitments in relation to the acquisition of property, plant and equipment and mine development costs amounting to US$19.1 million (31 December 2016: US$3.8 million) including US$17.6 million in relation to POX Hub project (31 December 2016: US$3.8 million).

Investment agreement with the Russian Ministry of Far East Development
On 14 December 2015, the Group entered into an investment agreement with the Russian Ministry of Far East Development (the 'Investment Agreement'). The Investment Agreement involves provision of RUB5.5billion (an equivalent to c.US$91 million as at 31 December 2016) funding towards the construction of the electricity power line in the North-East of the Amur Region of Russia, where the Group's Albyn and Malomir mines and adjacent licence areas are operated, during the period from 2015 to 2019. The funds are passed through the Group to the joint-stock company Far East Grid Distribution Company ('DRSK'), which is required to engage a contractor to build the relevant power supply infrastructure. The Group's responsibility under the Investment Agreement will be to monitor the progress and to report to the Russian Ministry of Far East Development. The Group is taking ultimate responsibility for the construction of the power line. Upon completion, the Group will get access to the enhanced capacity of the power supply infrastructure in the region. Under the terms of the Investment Agreement, the Group has certain capital commitments, including further development of Albyn and Malomir mines.

During 2017, the Group received an aggregate RUB1.8 billion (an equivalent to US$31.2 million) in funding under the Investment Agreement and transferred these funds to DRSK (2016: the Group received an aggregate RUB2.0 billion (an equivalent to US$30.8 million) in funding and transferred an aggregate RUB3.1 billion (an equivalent to US$47.7 million) to DRSK).

30. Reconciliation of non-GAAP measures (unaudited)

	2017 US$'000	2016 US$'000
Profit for the period	41,466	31,706
Add/(less):		
Investment income	(760)	(556)
Interest expense	25,905	60,976
Other finance gains	(2,199)	(11,976)
Other finance losses	28,470	1,548
Foreign exchange losses	746	5,158
Accrual for additional mining tax [(a)]	19,852	–
Taxation	19,063	(4,698)
Depreciation	93,216	105,252
Impairment of exploration and evaluation assets	–	9,155
(Reversal of impairment)/ impairment of ore stockpiles	(4,702)	1,163
Impairment of gold in circuit	3,890	–
Impairment of non-trading loans	629	–
Share of results of associates [(b)]	(28,744)	2,356
Underlying EBITDA◆	196,832	200,084

(a) Amounts of mining tax for the six-month period to 31 December 2016, interest and penalties settled by the Group in 2017 following unfavourable court decisions.
(b) Group's share of interest expense, investment income, other finance gains and losses, foreign exchange losses, taxation, depreciation and impairment/reversal of impairment recognised by an associate (note 14).

◆ Go to pages 197 to 203 for more information on our APMs.

31. Principal subsidiaries and other significant investments

The Group has the following principal subsidiaries and other significant investments, which were consolidated in this financial information.

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC[a] 31 December 2017	Proportion of shares held by Petropavlovsk PLC[a] 31 December 2016	Proportion of shares held by the Group[a] 31 December 2017	Proportion of shares held by the Group[a] 31 December 2016
Subsidiary						
JSC Management Company Petropavlovsk	Russia	Management company	100%	100%	100%	100%
Petropavlovsk 2010 Limited	Jersey	Finance company	100%	100%	100%	100%
Petropavlovsk 2016 Limited	Jersey	Finance company	100%	–	100%	–
JSC Pokrovskiy Rudnik	Russia	Gold exploration and production	19.37%	43.5%	99.38%	98.61%
LLC Malomirskiy Rudnik	Russia	Gold exploration and production	–	–	99.94%	99.86%
LLC Albynskiy Rudnik	Russia	Gold exploration and production	–	–	100%	100%
LLC Osipkan	Russia	Gold exploration and production	–	–	100%	100%
LLC Tokurskiy Rudnik	Russia	Gold exploration and production	–	–	100%	100%
LLC Rudoperspektiva	Russia	Gold exploration and production	–	–	100%	100%
LLC Temi	Russia	Gold exploration and production	–	–	75%	75%
LLC AGPK	Russia	Gold exploration and production	–	–	99.38%	98.61%
LLC PPOP	Russia	Gold exploration and production	–	–	–	98.61%
Universal Mining Inc.	Guyana	Gold exploration and production	–	–	100%	100%
LLC Kapstroi	Russia	Construction services	–	–	100%	100%
LLC NPGF Regis	Russia	Exploration services	–	–	100%	100%
CJSC ZRK Dalgeologiya	Russia	Exploration services	–	–	99.38%	98.61%
JSC PHM Engineering	Russia	Project and engineering services	–	–	94%	94%
JSC Irgiredmet	Russia	Research services	–	–	99.69%	99.69%
LLC NIC Gydrometallurgia	Russia	Research services	–	–	100%	100%
LLC BMRP	Russia	Repair and maintenance	–	–	100%	100%
LLC AVT-Amur	Russia	Production of explosive materials	–	–	49%	49%
LLC Transit	Russia	Transportation services	–	–	100%	100%
Pokrovskiy Mining College	Russia	Educational institute	–	–	99.38%	98.61%
Associate						
IRC Limited[b]	HK	Management and holding company	–	–	31.10%	31.10%

(a) In the ordinary class of shares.

(b) IRC Limited and its principal subsidiary and joint venture undertakings.

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC [a] 31 December 2017	Proportion of shares held by Petropavlovsk PLC [a] 31 December 2016	Proportion of shares held by the Group [a] 31 December 2017	Proportion of shares held by the Group [a] 31 December 2016
IRC and its principal subsidiary and joint venture undertakings ('IRC')						
IRC Limited	HK	Management and holding company	–	–	31.10%	31.10%
Principal subsidiaries of IRC						
LLC Petropavlovsk-Iron Ore	Russia	Management company	–	–	31.10%	31.10%
LLC Olekminsky Rudnik	Russia	Iron ore exploration and production	–	–	31.10%	31.10%
LLC KS GOK	Russia	Iron ore exploration and production	–	–	31.10%	31.10%
LLC Garinsky Mining & Metallurgical Complex	Russia	Iron ore exploration and production	–	–	30.97%	30.97%
LLC Kostenginskiy GOK	Russia	Iron ore exploration and production	–	–	31.10%	31.10%
LLC Orlovo-Sokhatinsky Rudnik	Russia	Iron ore exploration and production	–	–	31.10%	31.10%
JSC Giproruda	Russia	Engineering services	–	–	21.85%	21.86%
LLC SHMTP	Russia	Infrastructure project	–	–	31.10%	31.10%
LLC Amursnab	Russia	Procurement services	–	–	31.07%	31.07%
Heilongjiang Jiatal Titanium Co., Limited	China	Titanium sponge project	–	–	31.10%	31.10%
LLC Uralmining	Russia	Iron ore exploration and production	–	–	31.10%	31.10%
LLC Gorniy Park	Russia	Molybdenym project	–	–	18.75%	18.75%
Joint ventures of IRC						
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	Vanadium project	–	–	14.31%	14.31%

(a) In the ordinary class of shares.

32. Related undertakings of the Group

The Group consists of the parent company, Petropavlovsk PLC, incorporated in the United Kingdom and its subsidiaries, associates and joint ventures. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned as at 31 December 2017 is disclosed below. The Group's principal subsidiaries and other significant investments are set out in note 31.

Name of undertaking	Country of incorporation	Proportion of shares held by the Group[a]	Registered address
Subsidiaries			
Aricom B Finance Plc	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Finance UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Services Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Roubles Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom B Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom B Roubles Treasury Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk Rouble UK Limited	UK	99.38%	11 Grosvenor Place, London, SW1X 7HH
Eponymousco Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Victoria Resources Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk Mining Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk Rouble Treasury Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk 2010 Limited	Jersey	100%	13-14 Esplanade, St. Helier, JE1 1EE
Petropavlovsk 2016 Limited	Jersey	100%	13-14 Esplanade, St. Helier, JE1 1EE
Petropavlovsk (Jersey) Limited	Jersey	100%	13-14 Esplanade, St. Helier, JE1 1EE
Petropavlovsk Group Finance Limited	Guernsey	100%	PO Box 409, Elizabeth House, Ruette Braye, St. Peter Port, GY1 3WA
JSC Management Company Petropavlovsk	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
JSC Pokrovskiy Rudnik	Russia	99.38%	676150, Amur Region, Magdagachinskiy District, Tygda Village, Sovetskaya Street, 17
LLC Malomirskiy Rudnik	Russia	99.94%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Albynskiy Rudnik	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Osipkan	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Tokurskiy Rudnik	Russia	100%	676581, Amur Region, Selemdzhinskiy District, Tokur Village, Vorozhejkina Street, 16
LLC Rudoperspektiva	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Temi	Russia	75%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC AGPK	Russia	99.38%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Kapstroi	Russia	100%	675002, Amur Region, Blagoveshchensk, Amurskaya Street, 17
LLC NPGF Regis	Russia	100%	675027, Amur Region, Blagoveshchensk, Western Industrial Hub
CJSC ZRK Dalgeologiya	Russia	99.38%	680041, Khabarovskiy Region, Khabarovsk, Balashovskaya Street, 15
JSC PHM Engineering	Russia	94%	105082, Moscow, Rubtsov Pereulok, 13
JSC Irgiredmet	Russia	99.69%	664025, Irkutsk, Gagarina Boulevard, 38
LLC NIC Gydrometallurgia	Russia	100%	196247, St. Petersburg, Leninskiy Prospekt, 151
LLC BMRP	Russia	100%	675016, Amur Region, Blagoveshchensk, Kalinina Street, 137
LLC AVT-Amur	Russia	49%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Transit	Russia	100%	676572, Amur Region, Selemdzhinskiy District, Fevralsk Urban Village, Vysotskogo Street, 1
Pokrovskiy Mining College	Russia	99.38%	676244, Amur Region, Zeya, Zolotogorskoe Shosse, 6
Universal Mining Inc.	Guyana	100%	Lot 8 Pere Street, Kitty, Georgetown
Petropavlovsk (Cyprus) Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Malomyrskiy Rudnik (Cyprus) Ltd	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Voltimand Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Horatio Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Sicinius Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Syncrom High Corporation Ltd	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102

Name of undertaking	Country of incorporation	Proportion of shares held by the Group[(a)]	Registered address
Cayiron Limited	Cayman Islands	100%	Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108
Associates			
IRC Limited[(b)]	HK	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
Subsidiaries of IRC			
LLC Petropavlovsk- Iron Ore	Russia	31.10%	127055, Moscow, Lesnaya Street, 43, Office 313
LLC Olekminsky Rudnik	Russia	31.10%	676253, Amur Region, Tyndinskiy District, Village Olekma
LLC KS GOK	Russia	31.10%	679000, The Jewish Autonomous Region, Birobidzhan, 60-Letiya SSSR Street, Building 22B
LLC Garinsky Mining & Metallurgical Complex	Russia	30.97%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19
LLC Kostenginskiy GOK	Russia	31.10%	679000, The Jewish Autonomous Region, Birobidzhan, 60-Letiya SSSR Street, Building 22B.
LLC Orlovo-Sokhatinsky Rudnik	Russia	31.10%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19
JSC Giproruda	Russia	21.85%	St. Petersburg, Leninskiy Avenue,151
LLC SHMTP	Russia	31.10%	682818, RF, Khabarovsk Territory, Town Sovetskaya Gavan, Pervomayskaya Street, 48A
LLC Amursnab	Russia	31.07%	127055, Moscow, Lesnaya Street, 43, Office 313
LLC Uralmining	Russia	31.10%	105082, Moscow, Spartakovskaya Square, 14, Building 1
LLC Gorniy Park	Russia	18.75%	101000, Moscow, Pokrovka Street,1/13/6 Building 2, Office 35
LLC Garinskaya Infrastructure	Russia	31.10%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19
LLC TOK	Russia	31.10%	676282, Amur Region, Tynda, Sovetskaya Street,1A
Lucilius Investments Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Kapucius Services Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Lapwing Limited	Cyprus	30.97%	Themistokli Dervi 12, Palais D' Ivoire, 2nd Floor, 1066 Nicosia
Russian Titan Company Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Brasenose Services Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Tenaviva Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Esimanor Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Metellus Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Dardanius Limited	Cyprus	31.09%	Souliou 14, Aglantzia, 2102 Nicosia
Rumier Holdings Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Guiner Enterprises Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Expokom Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Arfin Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Caedmon Limited	Cyprus	18.75%	Souliou 14, Aglantzia, 2102 Nicosia
Thorholdco (Cyprus) Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Heilongjiang Jiatal Titanium Co., Limited	China	31.10%	668, Songxing Street, Jiamusi, Heilongjiang Province
Ariti HK Limited	Hong Kong	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
Ariva HK Limited	Hong Kong	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
ThorRouble Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Thordollar Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Thorholdco Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Aricom UK Limited	UK	31.10%	11 Grosvenor Place, London, SW1X 7HH
Aricom Limited	UK	31.10%	11 Grosvenor Place, London, SW1X 7HH
Joint ventures of IRC			
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	14.31%	Building 50, Block12, Advanced Business Park, No. 188.West Road, South Ring 4, Fengtai District, Bejing

(a) In the ordinary class of shares.

(b) IRC Limited and its principal subsidiary and joint venture undertakings.

Company Balance Sheet

At 31 December 2017

	note	31 December 2017 US$'000	31 December 2016 (restated)[a] US$'000	1 January 2016 (restated)[a] US$'000
Fixed assets				
Tangible assets		33	59	87
Investments	3	775,657	739,921	776,214
		775,690	739,980	776,301
Current assets				
Debtors: due within one year	4	1,123,900	761,366	305,346
Debtors: due after one year	4	8,396	309,229	610,757
Cash at bank and in hand		2,200	4,259	4,966
		1,134,496	1,074,854	921,069
Creditors: amounts falling due within one year	5	(803,142)	(704,768)	(493,562)
Net current assets		331,354	370,086	427,507
Total assets less current liabilities		1,107,044	1,110,066	1,203,808
Derivative financial liability		(17,207)	(10,314)	(14,684)
Creditors: amounts falling due after more than one year	5	(567,484)	(541,178)	(578,999)
Net assets		522,353	558,574	610,125
Capital and reserves				
Share capital		48,920	48,920	48,874
Share premium		518,142	518,142	518,142
Own shares		–	–	(12,685)
Other reserves		(2,560)	(1,946)	(2,500)
Profit and loss account		(42,149)	(6,542)	58,294
Shareholders' funds		522,353	558,574	610,125

(a) See note 2 for details regarding the restatement.

The loss after tax for the year of the Company was US$35.6 million (2016: loss after tax of US$52.5 million).

The accompanying notes are an integral part of this balance sheet.

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 192 to 196 were approved by the Directors on 27 March 2018 and signed on their behalf by

Ian Ashby
Director

Andrey Maruta
Director

Company Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital [a] US$'000	Share premium [a] US$'000	Own shares US$'000	Other reserves US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2016	48,874	518,142	(12,685)	(2,500)	58,294	610,125
Loss for the year	–	–	–	–	(52,525)	(52,525)
Deferred share awards	46	–	12,685	(280)	(12,311)	140
Revaluation of available for sale investments	–	–	–	834	–	834
Balance at 1 January 2017	48,920	518,142	–	(1,946)	(6,542)	558,574
Loss for the year	–	–	–	–	(35,607)	(35,607)
Deferred share awards	–	–	–	144	–	144
Revaluation of available-for-sale investments	–	–	–	(758)	–	(758)
Balance at 31 December 2017	48,920	518,142	–	(2,560)	(42,149)	522,353

(a) Please see note 23 to the consolidated financial statements.

Notes to the Company Financial Statements

For the year ended 31 December 2017

1 Basis of preparation

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.

These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis except for the re-measurement of certain financial instruments to fair value.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements.

2 Significant accounting policies

2.1 Foreign currencies

The functional and presentation currency of the Company is the US Dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities that are denominated in other currencies are retranslated at the rates prevailing on the balance sheet date. Exchange rates used are consistent with the rates used by the Group as disclosed in note 2.6 to the consolidated financial statements. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

2.2 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of accumulated depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life as follows:

	Average life Number of years
Office equipment	4-7
Computer equipment	3

Useful lives and residual values are reviewed at the end of every reporting period.

2.3 Investments

Investments in subsidiary undertakings and joint ventures are initially measured at cost and subsequently carried at cost less provisions for impairment. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognised if the carrying amount of the investment exceeds the higher of net realisable value and the discounted future earnings from the investment.

Other investments are those classified as available-for-sale. Available-for-sale investments are initially measured at cost and subsequently carried at fair value. Changes to the fair value of available-for-sale investments are recognised in equity.

2.4 Taxation including deferred taxation

Full provision is made for deferred taxation on taxable temporary differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

2.5 Financial assets and liabilities

Financial assets and liabilities are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective evidence that the financial asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

2.6 Derivative financial instruments

Derivative financial instruments are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument.

Derivative financial instruments embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

2.7 Dividends

Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

2.8 Operating leases

Rentals paid under operating leases are charged to the profit and loss account as incurred.

2.9 Presentation of the ICBC guarantee arrangements

As at 30 June 2017, the Group reviewed arrangements under the ICBC guarantee (note 20 to the consolidated financial statements) and concluded it would be more appropriate to disclose the associated receivable from IRC and financial liability under the ICBC guarantee contract on a gross basis. The affected financial statement line items for the prior periods have been re-presented accordingly as set out below. This re-presentation did not have any impact on net assets, profit and loss account or shareholders' funds.

	31 December 2016 US$'000	Increase US$'000	31 December 2016 Restated US$'000	1 January 2016 US$'000	Increase US$'000	1 January 2016 Restated US$'000
Debtors: due after one year	300,000	9,229	309,229	598,389	12,368	610,757
Creditors: amounts falling due after more than one year	531,949	9,229	541,178	566,631	12,368	578,999

2.10 Areas of judgement in applying accounting policies and key sources of estimation uncertainty

When preparing these financial statements in accordance with the accounting policies as set out in note 2, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances and previous experience. Actual results may differ from these estimates under different assumptions and conditions (note 3 to the consolidated financial statements).

3. Investments

	Investments in Group companies US$'000	Other investments other than loans US$'000	Total US$'000
Cost			
At 1 January 2017	2,133,224	1,101	2,134,325
Additions	1,744	–	1,744
Fair value change	–	(758)	(758)
At 31 December 2017	2,134,968	343	2,135,311
Provision for impairment			
At 1 January 2017	(1,394,404)	–	(1,394,404)
Charge for the year	34,750[(a)]	–	34,750
At 31 December 2017	(1,359,654)	–	(1,359,654)
Net book value			
At 1 January 2017	738,820	1,101	739,921
At 31 December 2017	775,314	343	775,657

(a) Reversal of impairment to reflect changes in the value of the underlying investment in IRC Limited (note 14 to the consolidated financial statements).

Details of the Company's subsidiary undertakings at 31 December 2017 are provided in note 32 to the consolidated financial statements.

4. Debtors

	2017 US$'000	2016 (restated) US$'000
Owed by Group companies	1,116,939	1,048,124
VAT recoverable	2,053	2,046
Other debtors	13,304	20,425
	1,132,296	1,070,595
Due within one year	1,123,900	761,366
Due after more than one year	8,396	309,229
	1,132,296	1,070,595

5. Creditors

	2017 US$'000	2016 (restated) US$'000
Due to Group companies	1,342,638	706,751
Bank loans [a]	7,137	525,132
Trade creditors	1,362	975
Accruals and other creditors	19,489	13,088
	1,370,626	1,245,946
Due within one year	803,142	704,768
Due after more than one year	567,484	541,178
	1,370,626	1,245,946

(a) Please see note 20 to the consolidated financial statements.

6. Taxation

As at 31 December 2017, the Company has tax losses available to carry forward in the amount of US$274.4 million (2016: US$198.0 million).

7. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain Group undertakings. Please also see note 14 to the consolidated financial statements.

8. Operating lease arrangements

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under a non-cancellable operating lease for office premises, which fall due as follows:

	2017 US$'000	2016 US$'000
Expiring:		
Within one year	369	319
Within two to five years	123	531
	492	850

9. Directors' remuneration

There were two Executive Directors who held office at the end of the year (2016: three Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 115 to 132 of this Annual Report.

The Use and Application of Alternative Performance Measures (APMs)

Throughout this Annual Report, when discussing the Group's financial performance, reference is made to APMs.

Each of the APMs is defined and calculated by the Group and as such they are non-IFRS measures because they may include or exclude certain items that an IFRS measure ordinarily would or would not take into account. APMs should not be regarded as an alternative or substitute for the equivalent measures calculated and presented in accordance with IFRS but instead should be seen as additional information provided to investors to enable the comparison of information between different reporting periods of the Group.

Although the APMs used by the Group may be calculated in a different manner and defined differently by other peers in the precious metals mining sector (despite being similar in title), they are nonetheless relevant and commonly used measures for the industry in which Petropavlovsk operates. These and similar measures are used widely by certain investors, analysts and other interested parties as supplemental measures of financial performance.

Some of the APMs form part of the Group's Key Performance Indicators (KPIs), which are used to monitor progress and performance against strategic objectives and to benchmark the performance of the business each year.

A discussion of the relevance of each APM as well as a description of how they are calculated is set out below, with reconciliation to IFRS equivalents from the consolidated IFRS financial statements (Consolidated Income Statement (IS), Consolidated Balance Sheet (BS), Consolidated Cash Flows Statement (CF) and the notes to the consolidated IFRS financial statements).

Total Cash Costs (TCC)

Definition

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

Calculation

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

Operating cash costs are defined by the Group as operating cash expenses plus refinery and transportation costs, other taxes, mining tax and the amortisation of deferred stripping costs. This also equates to the Group's segment result as reported under IFRS plus each segment's share of results of associates, loss/gain on disposal of subsidiaries, impairment of ore stockpiles and gold in circuit, impairment of exploration and evaluation assets, impairment of mining assets, impairment of non-trading loans, central administration expenses, depreciation and accrual for additional mining tax minus each segment's revenue from external customers. Operating cash costs are presented on a segment basis.

Operating cash expenses are defined by the Group as the total of staff costs, materials, fuel, electricity, other external services, other operating expenses, and the movement in ore stockpiles, work in progress and bullion in process attributable to gold production (excluding deferred stripping costs). The main cost drivers affecting operating cash expenses are stripping ratios, production volumes of ore mined / processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate.

Other companies may calculate this measure differently.

Relevance

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

Reconciliation

The tables below provide a reconciliation between operating expenses and Total Cash Costs to calculate the cash cost per ounce sold for relevant periods.

The Use and Application of Alternative Performance Measures (APMs) continued

2017	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
Operating expenses	IS						510,683
Deduct:							
Foreign exchange losses	note 6						(746)
Accrual for additional mining tax	note 6						(19,852)
Depreciation	note 6						(93,216)
Reversal of impairment of ore stockpiles	note 6						4,702
Impairment of gold in circuit	note 6						(3,890)
Impairment of non-trading loans	note 6						(629)
Central administration expenses	note 6						(39,944)
Operating cash costs	note 4	127,657	39,988	61,079	98,354	30,030	357,108
Deduct:							
Corporate and other segment	note 4					(30,030)	(30,030)
Deduct: silver revenue	note 4	(743)	(121)	(42)	(185)	–	(1,091)
Total Cash Costs		126,914	39,867	61,037	98,169	–	325,987
Total ounces sold	oz	160,421	32,250	65,678	181,485		439,834
TCC/oz sold	US$/oz	791	1,236	929	541		741

2016	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
Operating expenses	IS						460,103
Deduct:							
Foreign exchange losses	note 6						(5,158)
Depreciation	note 6						(105,252)
Impairment of ore stockpiles	note 6						(1,163)
Impairment of exploration and evaluation assets	note 6						(9,155)
Gain on disposal of non–trading loans	note 6						6,724
Gain on disposal of subsidiaries	note 6						791
Central administration expenses	note 6						(32,623)
Operating cash costs	note 4	85,273	33,777	45,243	100,979	48,995	314,267
Deduct:							
Corporate and other segment	note 4					(48,995)	(48,995)
Deduct: silver revenue	note 4	(958)	(275)	(101)	(207)	–	(1,541)
Total Cash Costs		84,315	33,502	45,142	100,772	–	263,731
Total ounces sold	oz	133,605	38,151	54,760	173,342		399,858
TCC/oz sold	US$/oz	631	878	824	581		660

All-in Sustaining Costs (AISC)

Definition

AISC includes both operating and capital costs required to sustain gold production on an ongoing basis, over and above the direct mining and selling costs shown by TCC.

Calculation

AISC are calculated by the Group as TCC plus/(minus) impairment/(reversal of impairment) of ore stockpiles and gold in circuit, central administration expenses, plus capitalised stripping at the end of the period, minus capitalised stripping at beginning of the period, plus close-down and site restoration and sustaining capital and exploration expenditure. This is then divided by the ounces of gold sold. AISC are presented on a segment basis.

AISC are calculated in accordance with guidelines for reporting AISC as published by the World Gold Council in June 2013. Other companies may calculate this measure differently.

Relevance

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

Reconciliation

The tables below provide a reconciliation between Total Cash Costs and All-in Sustaining Costs to calculate all-in sustaining cost per ounce sold for relevant periods.

2017	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
Total Cash Costs		126,914	39,867	61,037	98,169	–	325,987
Add:							
(Reversal of impairment)/ impairment of ore stockpiles	note 6	(1,347)	175	304	(1,592)	–	(2,460)
Impairment of gold in circuit	note 6	2,594	733	563	–	–	3,890
Central administration expenses	note 6	14,569	2,929	5,965	16,481	–	39,944
Net capitalised stripping	note 15	917	–	7,024	5,639	–	13,580
Site restoration costs		101	201	327	868	–	1,497
Sustaining exploration expenditures		5,993	37	3,789	6,318	–	16,137
Sustaining Capital Expenditures		15,351	159	4,929	4,510	–	24,949
All-in Sustaining Costs		165,092	44,101	83,938	130,393	–	423,524
Total ounces sold	oz	160,421	32,250	65,678	181,485		439,834
All-in Sustaining Costs per ounce sold	US$/oz	1,029	1,367	1,278	718		963

2016	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
Total Cash Costs		84,315	33,502	45,142	100,772	–	263,731
Add:							
Impairment/ (reversal of impairment) of ore stockpiles	note 6	6,301	1,002	(30)	(123)	–	7,150
Central administration expenses	note 6	10,900	3,113	4,468	14,142	–	32,623
Net capitalised stripping	note 15	–	–	3,610	4,596	–	8,206
Site restoration costs		54	19	48	54	–	175
Sustaining Capital Expenditures		3,902	61	1,724	5,209	–	10,896
All-in Sustaining Costs		105,472	37,697	54,962	124,650	–	322,781
Total ounces sold	oz	133,605	38,151	54,760	173,342		399,858
All-in Sustaining Costs per ounce sold	US$/oz	789	988	1,004	719		807

The Use and Application of Alternative Performance Measures (APMs) continued

All in Costs (AIC)

Definition
AIC comprises of AISC as well as Capital Expenditures for major growth projects or enhancement capital for significant improvements at existing operations.

Calculation
AIC are calculated by the Group as AISC plus non-sustaining exploration and Capital Expenditure and (reversal of impairment)/impairment of refractory ore stockpiles. This is then divided by the ounces of gold sold. AIC are presented on a segment basis.

AIC is calculated in accordance with guidelines for reporting AIC as published by the World Gold Council in June 2013. Other companies may calculate this measure differently.

Relevance
AIC reflect the costs of producing gold over the life-cycle of a mine.

Reconciliation
The tables below provide a reconciliation between All-in Sustaining Costs and All-in Costs to calculate all-in cost per ounce sold for relevant periods.

2017	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
All-in Sustaining Costs		165,092	44,101	83,938	130,393	–	423,524
Add:							
Reversal of impairment of ore stockpiles	note 6	(2,242)	–	–	–	–	(2,242)
Exploration expenditure		5,592	–	44	127	–	5,763
Capital Expenditure		18,237	–	22,972	–	–	41,209
All-in costs		186,679	44,101	106,954	130,520	–	468,254
Total ounces sold	oz	160,421	32,250	65,678	181,485		439,834
All-in costs per ounce sold	US$/oz	1,164	1,367	1,628	719		1,065

2016	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
All-in Sustaining Costs		105,472	37,697	54,962	124,650	–	322,781
Add:							
Reversal of impairment of ore stockpiles	note 6	(191)	–	(5,796)	–	–	(5,987)
Exploration expenditure		8,455	76	1,887	6,172	–	16,590
Capital Expenditure		1,037	–	836	1	–	1,874
All-in costs		114,773	37,773	51,889	130,823	–	335,258
Total ounces sold	oz	133,605	38,151	54,760	173,342		399,858
All-in costs per ounce sold	US$/oz	859	990	948	755		838

Average Realised Gold Sales Price

Definition
The Average Realised Gold Sales Price is the mean price at which the Group sold its gold production output throughout the reporting period, including the realised effect of cash flow hedge contracts during the period.

Calculation
The Average Realised Gold Sales Price is calculated by dividing total revenue received from gold sales (including the realised effect of any hedging contracts) by the total quantity of gold sold during the period. Other companies may calculate this measure differently.

Relevance
As gold is the key commodity produced and sold by the Group, the Average Realised Gold Sales Price is a key driver behind the Group's revenues and profitability.

Reconciliation
The average realised gold price has been calculated as set out in the table below.

	Ref		2017	2016
Gold revenue	note 4	US$'000	555,092	488,468
Gold sold		ounces	439,834	399,858
Average realised gold price		US$/oz	1,262	1,222

Capital Expenditure (CAPEX)

Definition
CAPEX is the investment required by the Group to explore and develop its gold assets and keep current plants and other equipment at its gold mines in good working order.

Calculation
CAPEX represents cash flows used in investing activities, namely Purchases of property, plant and equipment and Expenditure on exploration and evaluation assets.

Relevance
Capital Expenditure is necessary in order not only to maintain but also to develop and grow the business. CAPEX requirements need to be balanced in line with the Group's strategy and provide an optimal allocation of the Group's funds.

Reconciliation
The table below provides a reconciliation between Capital Expenditure and cash flows used in investing activities.

	Ref	31 December 2017 US$'000	31 December 2016 US$'000
Purchase of property, plant and equipment	CF	82,295	22,004
Expenditure on exploration and evaluation assets	CF	5,763	7,356
Total Capital Expenditure		88,058	29,360

Net Debt

Definition
Net Debt shows how indebted a company is after total debt and any cash (or its equivalent) are netted off against each other.

Calculation
Net Debt is calculated as the sum of current borrowings and non-current borrowings less cash and cash equivalents. Other companies may calculate this measure differently.

Relevance
Management considers Net Debt a key measure of the Company's leverage and its ability to repay debt as well showing what progress is being made in strengthening the balance sheet. The measure is also widely used by various stakeholders.

Reconciliation
The table below provides calculation of Net Debt at relevant reporting dates.

	Ref	31 December 2017 US$'000	31 December 2016 US$'000
Cash and cash equivalents	BS	11,415	12,642
Borrowings	BS	(596,474)	(611,212)
Net Debt		(585,059)	(598,570)

The Use and Application of Alternative Performance Measures (APMs) continued

Underlying EBITDA

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

Calculation
Underlying EBITDA is calculated as profit/(loss) for the period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, impairment charges and accrual for additional mining tax. Other companies may calculate this measure differently.

Relevance
Underlying EBITDA is an indicator of the Group's ability to generate operating cash flows, which are the source of funding for the Group's working capital requirements, Capital Expenditure and debt service obligations. The measure is also widely used by various stakeholders.

Reconciliation
The tables below provide reconciliations between net profit and Underlying EBITDA as well as reconciliation between operating profit and Underlying EBITDA for relevant periods.

	Ref	2017 US$'000	2016 US$'000
Profit for the period	IS	41,466	31,706
Add/(less):			
Investment income	IS	(760)	(556)
Interest expense	IS	25,905	60,976
Other finance gains	IS	(2,199)	(11,976)
Other finance losses	IS	28,470	1,548
Foreign exchange losses	note 6	746	5,158
Accrual for additional mining tax	note 6	19,852	-
Taxation	IS	19,063	(4,698)
Depreciation	note 6	93,216	105,252
Impairment of exploration and evaluation assets	note 6	–	9,155
(Reversal of impairment)/ impairment of ore stockpiles	note 6	(4,702)	1,163
Impairment of gold in circuit	note 6	3,890	–
Impairment of non-trading loans	note 6	629	–
Share of results of associates [(a)]	note 14	(28,744)	2,356
Underlying EBITDA		196,832	200,084

2017	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Consolidated US$'000
Operating profit	IS						111,945
Foreign exchange losses	note 6						746
Segment result	note 4	41,026	(9,455)	5,807	79,686	(4,373)	112,691
Add/ (less):							
Accrual for additional mining tax	notes 4,6	6,511	2,255	2,780	8,306	–	19,852
Depreciation	notes 4,6	28,936	7,112	12,607	44,346	215	93,216
(Reversal of impairment) / impairment of ore stockpiles	notes 4,6	(3,589)	175	304	(1,592)	–	(4,702)
Impairment of gold in circuit	notes 4,6	2,594	733	563	–	–	3,890
Impairment of non-trading loans	notes 4,6	–	–	–	–	629	629
Share of results of associates [(a)]	note 14					(28,744)	(28,744)
Underlying EBITDA		75,478	820	22,061	130,746	(32,273)	196,832

2016	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Consolidated US$'000
Operating profit	IS						77,000
Foreign exchange losses	note 6						5,158
Segment result	note 4	34,313	5,602	14,159	55,622	(27,538)	82,158
Add/ (less):							
Depreciation	notes 4,6	38,776	6,586	13,632	45,729	529	105,252
Impairment of exploration and evaluation assets	notes 4,6	–	–	–	9,155	–	9,155
Impairment/ (reversal of impairment) of ore stockpiles	notes 4,6	6,110	1,002	(5,826)	(123)	–	1,163
Share of results of associates [(a)]	note 14					2,356	2,356
Underlying EBITDA		79,199	13,190	21,965	110,383	(24,653)	200,084

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

Appendix, Glossary and Definitions

For the year ended 31 December 2017

Important information
Past performance of Petropavlovsk PLC or any other company referred to in this document cannot be relied on as a guide to its future performance. Some figures may be rounded. The content of websites referred to in this document does not form part of this document.

Forward looking statements
This document may include statements that are, or may be deemed to be, forward looking statements. Generally, these forward looking statements can be identified by the use of forward looking terminology, including the terms 'believes', 'estimates', 'plans', 'targets', 'seeks', 'projects', 'anticipates', 'expects', 'intends', 'forecast', 'may', 'will' 'would' or 'should' or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, targets, future events or intentions. These forward looking statements include all matters that are not historical facts and speak only as at the date of this document. They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and expectations of the industry.

By their nature, forward looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates may differ materially from those described in, or suggested by, any forward looking statements contained in this document. In addition, even if the development of the markets and the industry in which the Group operates are consistent with the forward looking statements contained in this document, those developments may not be indicative of developments in subsequent periods. A number of factors could cause developments to differ materially from those expressed or implied by the forward looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations (including the US Dollar and Russian Rouble), the Group's ability to recover its reserves or develop new reserves, changes in its business strategy, political and economic uncertainty. Save as required by the Listing and Disclosure and Transparency Rules, the Company is under no obligation to update the information contained in this document.

Nothing in this publication should be considered to be a profit forecast and no statement in this document should be interpreted to mean that earnings per share for the current or future financial years would necessarily match or exceed the historical published earnings per share. This document does not constitute or form part of an invitation to sell or issue, or any solicitation of any offer or invitation to purchase or subscribe for, any securities.

Ore Reserve and Mineral Resource reporting – basis of preparation
In line with the approach adopted in previous years, the Group has reported its hard rock Mineral Resources and Ore Reserves in accordance with JORC Code. The assets are subdivided into 'core' and 'non-core' projects. Core projects are classified as the Group's four operational mines, namely: Pokrovskiy, Pioneer, Malomir, Albyn and all their satellites scheduled for production through the mines' existing processing facilities. Mineral Resource and Ore Reserve estimates for these assets were audited by WAI in accordance with JORC Code (2012) in April 2017. The ore reserve estimate uses a long term gold price assumption of US$1,200/oz with other modifying factors derived from the actual 2016 operational performance. Mineral resources are estimated using a US$1,500/oz long term gold price assumption. The Group considers its 'non-core' projects to be those assets which have good prospects, but are not located near current processing facilities. Following the disposal of the Visokoye and Yamal assets completed in 2016, the "non-core" projects include Tokur and Burinda. Tokur Mineral Resource and Ore Reserve estimates were reviewed in accordance with JORC Code (2004) and signed off by WAI in March 2011. The estimate uses a US$1,000/oz gold price assumption together with other modifying factors relevant on the date of the estimate. Tokur Mineral Resources and Ore Reserves have not changed since. The Burinda resource estimate was reviewed and signed off by WAI in accordance with JORC Code (2012) in April 2016. The estimate has not changed since that date.

alluvial	material that is transported by a river and deposited at points along the flood plain and river bed. The material may contain economical placer deposits of gold and other valuable minerals
Au	chemical symbol for the element gold
autoclave	equipment used in the pressure oxidation process to enable gold extraction from refractory ores
cut off grade	the lowest grade of mineralised material considered economic, used in the reporting of Ore Reserves and Mineral Resources
Board	the Board of Directors of the Company
Bondholder	holders of the Group's new US$100 million 9% convertible bonds due 2020
Directors	the Directors of the Company
EPS	Earnings (Loss) Per Share
feasibility study	an extensive technical and financial study to assess the commercial viability of a project
flotation	mineral processing technique used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface
the Foundation or the Petropavlovsk Foundation	the Petropavlovsk Foundation for Social Investment
geochemical prospecting	techniques which measure the content of specified metals in soils and rocks; sampling defines anomalies for further testing
geophysical prospecting	techniques that measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies
g/t	gram per metric tonne
grade	relative quantity or percentage of ore mineral or metal content in an ore body
Group	the Company and its subsidiaries
heap leach	process used for the recovery of metal ore from typically weathered low grade ore. Crushed material is laid on a slightly sloping, impervious pad and uniformly leached by the percolation of the leach liquor trickling through the beds by gravity to ponds. The metals are recovered via conventional methods from the solution
HSE Committee	Health, Safety and Environmental Committee
ICBC	Industrial and Commercial Bank of China
***Indicated* Resource**	as defined in the JORC Code, the part of a mineral resource that has been sampled by drill holes, underground openings or other sampling procedures at locations that are too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data is known with a reasonable degree of reliability. An *Indicated* Mineral Resource will be based on more data and therefore will be more reliable than an *Inferred* Resource estimate
***Inferred* Resource**	as defined in the JORC Code, the part of a mineral resource for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, which may be limited or of uncertain quality and reliability
IRC	IRC Limited, the Hong Kong listed former subsidiary, now associate, of the Group. Petropavlovsk remains a major shareholder
JORC	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia

◆ Go to pages 197 to 203 for more information on our APMs.

Appendix, Glossary and Definitions continued

For the year ended 31 December 2017

K&S	the Kimkan and Sutara deposits, which are being developed as one project by IRC
Kapstroi	OOO Kapstroi, an indirect subsidiary of the Company. Specialising in mine construction, Kapstroi has so far carried out the majority of the construction work for the Group
KPI	Key Performance Indicator, used to monitor progress and performance against strategic objectives and to benchmark the Group's performance
ktpa	thousand tonnes per annum
LTIFR	Lost Time Injury Frequency Rate: the time lost as a result of an accident or fatality, measured as the number of accidents per million man hours worked
mill	equipment used to grind crushed rocks to the desired size for mineral extraction
mineralisation	process of formation and concentration of elements and their chemical compounds within a mass or body of rock
Mineral Resource	concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for eventual economic extraction. The location, quantity, grade geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are subdivided into *Inferred*, *Indicated* and *Measured* categories
Mtpa	million tonnes per annum
OHS/OH&S	occupational health and safety
open pit	large excavation developed to extract a mineral deposit located near the surface
ore	mineral deposit that can be extracted and marketed profitably
ore body	mining term to define a solid mass of mineralised rock that can be mined profitably under current or immediately foreseeable economic conditions
Ore Reserve	the economically mineable part of a *Measured* or *Indicated* Mineral Resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of, and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore Reserves are sub divided in order of increasing confidence into *Probable* and *Proven*
ounce or oz	troy ounce (= 31.1035 grams)
overburden	material that lies above the ore deposit
placer deposit	see entry for 'alluvial'
pressure oxidation (POX)	a high temperature and pressure process in which refractory ores (gold bearing sulphides) are oxidised to render gold amenable to cyanide leaching
***Probable* Reserve**	*Measured* and/or *Indicated* Mineral Resources which are not yet proven, but where technical economic studies show that extraction is justifiable at the time of the determination and under specific economic conditions
***Proven* Reserve**	*Measured* Mineral Resources, where technical economic studies show that extraction is justifiable at the time of the determination and under specific economic conditions recovery of the proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material processed
refractory ore	ore material that is difficult to treat for recovery of the valuable element. Refractory gold ore requires additional treatment such as pressure oxidation (POX), roasting or bio oxidation for efficient processing and gold recovery
R&D	research and development
RIP	resin-in-pulp; a processing technique by which a resin medium is used to absorb the desired element out of solution or pulp

Russian GKZ Standard Classification System	the means by which Russian reserves are assigned to classes based on the degree of reliability of data and indicates their comparative importance for the national economy
stockpile	an accumulation of ore or mineral formed to create a reserve for loading, for when demand slackens or for when the process plant is unequal to handling mine output
strike	direction in which a horizontal line can be drawn on a plane, which determines the direction in which to measure the true dip of an ore body
strike length	longest horizontal dimension of an ore body or zone of mineralisation
strip ratio	In mining, *stripping ratio* or *strip ratio* refers to the ratio of the volume of *overburden* (or waste material) required to be handled in order to extract some volume of ore. For example, a 3:1 stripping ratio means that mining one cubic metre of ore will require mining three cubic metres of waste rock
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

◆ Go to pages 197 to 203 for more information on our APMs.

Shareholder Information

For the year ended 31 December 2017

Shareholder queries
The Company's share register is maintained by the Company's Registrar, Link Asset Services. Shareholders with queries relating to their shareholding should contact Link Asset Services directly using one of the methods listed below.

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone Helpline: 0871 664 0300

If shareholders have any questions please call Link Asset Services on 0871 664 0300. Calls cost 12p per minute plus your phone company's access charge. Shareholders outside the United Kingdom, should call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. The Link helpline is open between 09.00am to 5.30pm, Monday to Friday excluding public holidays in England and Wales.

Online: enquiries@linkgroup.co.uk
(from here you will be able to email Link Asset Services with your enquiry).

For more general queries, shareholders should consult the 'Investors' section of the Company's corporate website at www.petropavlovsk.net.

Managing your shares online
Shareholders can manage their holdings online by registering with Link Asset Services share portal service. This is an online service provided by Capita which enables you to view and manage all aspects of your shareholding security. The service is free and available 24 hours a day at your convenience.
Shareholders, whose shares are registered in their own name, can:

- view holdings plus indicate price and valuation
- view movements on their shareholdings
- view dividend payment history
- change their address
- register or change their email address
- sign up to receive communications by email instead of post
- access the online voting service.

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Telephone: +44 (0) 20 7201 8900

Registered in England and Wales
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Online for general queries:
contact@petropavlovsk.net

Investor Relations Contact:
Dr Alya Samokhvalova
Deputy CEO Strategic Development

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 the Company's website. This information has been prepared under the relevant accounting standards and legislation.

Annual General Meeting 2018
This year's Annual General Meeting (AGM) will be held at 3 More London Riverside, London SE1 2AQ. The meeting will be held on 21 June 2018. Shareholders who wish to attend the AGM are kindly asked to read the accompanying notes to the Notice of the Meeting which explain the documentation required by shareholders in order for them to gain entry to the meeting.

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