

PETER HAMBRO MINING PLC

Sustainability Report 2007

2007 Highlights

- ▶ Implementation of key performance indicators (“KPIs”) for sustainability
 - ▶ Holding of the first Group Environmental, Health and Safety Management Conference in Moscow
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- ▶ Zero emissions in excess of regulatory limits reported at mining and processing operations
 - ▶ Zero cases of non-compliance identified by Russian regulatory authorities
 - ▶ Commencement of Pioneer mine operations successfully permitted
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- ▶ Continued implementation of International Finance Corporation (“IFC”) Performance Standards
 - ▶ Independent audit of cyanide management practice completed

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Chairman's statement

Our Group has been doing business in Russia for 14 years and over that time we have developed an approach that tries to take into account the interests of those with whom we do business and the communities within which we operate as well as the interests of our shareholders.

This approach continues to evolve but I believe it still rests on the same basic principles of responsible business as it did back in 1994, when we first started business in Russia. A year ago when we published our first Sustainability Report, documenting our journey towards long-term sustainable development, we undertook to meet a challenging set of targets. The Board of Directors and the executive leadership team are committed to this journey and to achieving our economic, environmental and social targets.

I am pleased to present our second Sustainability Report which reflects on the major efforts we have made in sustainability during 2007. It closely follows our Plan for Sustainability Management and Performance (the "Sustainability Plan") adopted last year.

Our ongoing commitment to such industry best practice as exemplified by the Sustainable Development Principles of the International Council of Mining and Metals ("ICMM") and the Cyanide Code is in line with the recommendations of the World Gold Council, of which we are members.

By using Global Reporting Initiative ("GRI") guidelines to write this report, we are continuing the internal and external dialogue with shareholders about combining delivery of shareholder value with caring for our employees, supporting local communities and minimising our impact on the environment.

I would like to say that, without the full commitment and dedication of all the members of our team, it would be very difficult to continue to implement best practice in sustainability so I would further like to give my warm thanks to all employees of the Group for their continued commitment and hard work. It has only been with this level of effort from our employees that we have been able to achieve the excellent results set out in this report.

Peter Hambro
Executive Chairman



Company vision & strategy

Good governance and a good understanding of the ways in which the Group's operations affect others have always been key to the way in which the Group conducts its business. The Group is aware that sustainable development is an intrinsic element of corporate success and that a successful business is one that is sustainable and supported by the communities within which it works.

Sustainability strategy

The Group has built its operations on the successful creation of value through the exploration, development and operation of gold mining projects. The Group is committed to continuous improvements in health, safety and environmental performance at these projects and to sharing the benefits of its activities with the

communities within which it operates. The objective is to leave behind a positive legacy of stronger, more sustainable communities once mining activities cease. Specifically:

- The Group is committed to managing its operations to ensure the safety and security of its employees, contractors, neighbours and the host environment. In planning its approach to business the

Group recognises that it has duties to shareholders and responsibilities to a wider group of stakeholders (i.e. any person or group of people who can affect or who is affected by the Group's activities).

- The Group will continue to strive to implement IFC performance standards and guidelines and international good practice, throughout its operations.
- The Group aims to continue to develop and implement reporting systems in broad alignment with the requirements of the GRI as part of a process of demonstrating progress towards, and commitment to, improving environmental and social performance.

Year on year development

The Sustainability Plan, which was launched in 2006, has now been extended to cover Peter Hambro Mining Plc ("PHM") operations up to 2010. The focus has been to ensure that any systems, procedures and policies are relevant to the Group's

mining operations and are implemented in a structured and progressive way. In 2007, the Group conducted full external audits of its core operations and developed environmental action plans. The Group continued to implement monitoring and reporting structures and introduced KPIs

as a means to track progress. The Group's Sustainability Plan provides an overall framework, structure and management system for the achievement of best practice standards in the industry.

	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual Sustainability Report		✓				✓				●		
External report verification						● Work in progress →				●		
Operations reviews			✓			● Work in progress →				●		
Pokrovskiy & Pioneer Environmental Action Plan			● Implementation →									
Malomir Environmental Action Plan						● Implementation →						
Yamal Environmental Action Plan									● Implementation →			
Development of the implementation KPI reporting system		● Ongoing development →										

✓ Action completed ● Work in progress

"The Group strives to produce gold that is as green as it is yellow."

– Peter Hambro, Executive Chairman

Sustainability Committee



▼ Sir Rudolph Agnew

As former Chief Executive and Chairman of Consolidated Gold Fields, Sir Rudolph Agnew is in an excellent position to advise the Group on the social responsibility issues that apply across the industrial sector, that are both general and particular to the gold mining industry.



▼ Alfia Samokhvalova

Alfia Samokhvalova is Director of External Communications of the Group. A Russian national, she is familiar with Russian regulations and requirements and maintains daily contact with the Russian management team at the Group's various mining operations.



▲ Philip Leatham

A former Finance Director of the Group, Philip Leatham is currently a Non-Executive Director and Chairman of the Sustainability Committee. He is also a member of other committees of the Board of Directors.



▲ Peter Hill-Wood

A Non-Executive Director for the Group, Peter Hill-Wood has vast experience of working at Board level for both PHM and other companies. This has given him a sound understanding of corporate governance and social responsibility issues.



ICMM Principles for sustainable development



► School children in the Amur Region

In May 2003, the ICMM committed its corporate members to both implement and measure performance against 10 principles of sustainable development. These principles included the commitment to continuously improve environmental, health and safety performance, to maintain ethical business and good corporate governance and to contribute to the communities in which mining companies operate.

In the PHM Sustainability Report 2006, the Group provided a brief review of status in relation to the implementation of the 10 principles. During 2007, significant progress has been made in relation to governance, reporting and the institutional structure for environmental management. The Group continues to measure and monitor its performance through a hard scientific approach and, on this basis, to develop risk control measures which limit its environmental footprint and encourage environmental enhancement. The Group has extended its outreach to the community through health, education and welfare projects. In 2008, the Group intends to continue to implement the ICMM Principles and to provide regular reports on progress.

Company profile

PHM is the second biggest gold producer in Russia, with attributable gold production in 2007 of c.297,300 oz. The Group was founded in 1994 and PHM's Ordinary shares were admitted to trading on London's AIM Market in 2002. The Group has offices in London, Moscow and Blagoveschensk, the capital of the Amur Region. The Group employs approximately 5,000 people.

The Group's principal mining activities are located in the Amur Region in the Russian Far East, at the Pokrovskiy, Pioneer and Malomir mines. Other regions in which the Group is active include Yamal, Buryatiya, Magadan, Sakha, Chita and Irkutsk.

These regions are relatively sparsely populated and the Group's operations make a significant contribution to local employment levels.

The absence of densely-populated areas and limited economic development means that the areas are remote and running a successful mining operation presents a unique set of challenges.

Cyanide management

The Group is working towards the implementation of the International Cyanide Management Code at all its production operations. An independent review of these operations was undertaken by Wardell Armstrong International, and a phased implementation of the Cyanide Management Code at the Group's operation is progressing. Progress on the implementation of this Code will be reported in future Sustainability Reports.

Pokrovskiy and Pioneer mines

The majority of the Group's gold production comes from the Pokrovskiy mine, an open-pit operation in a remote area of the Amur Region. The Pokrovskiy mine produced c.237,000 oz of gold in 2007, making it one of the largest gold producers in the Amur Region.

Pokrovskiy makes a significant contribution to the local economy. It is the third largest taxpayer in the Amur Region, having paid US\$31.6m in various taxes and royalties in 2007. It had 1,849 members of staff in 2007.

The Pioneer mine is also located in the Amur Region, 35km north-east of Pokrovskiy. The first line of the plant was completed in September 2007 and, after the introduction of a ball mill in 2008, the plant is expected to start producing gold at commercial levels in the second half of 2008.

The Group's next expansion is expected to come from the commencement of operations at Malomir at the end of 2009. The exploration works and feasibility study are scheduled to be finalised by the beginning of 2009. The Malomir deposit is the most advanced project in the Group and is located on the prospective north-east "gold belt" of the Amur Region. The other most developed deposits in this area are Albyn and Tokur which are planned to be developed capitalising on synergies from their close proximity to each other.

The deposit closest to production in the Yamalo-Nenetsky Autonomous Region is Novogodnee Monto where a feasibility study was completed in 2007.

Exploration works at the Petropavlovskoye deposit, which is only 1 km away, are scheduled to be finalised in 2008.

Exploration and development

The Group has a significant portfolio of exploration projects at various stages of development and is one of the biggest explorers in Russia.

Exploration is undertaken using a system of trench sampling and shallow and deep core drill holes. The samples are then sent to laboratories within the Group for testing. This enables the Group to maintain development of all projects from greenfield status to production without using sub-contractors. Employing local people and involving many of them in a comprehensive educational programme set up by the Group, also help the development of the local communities for whom finding alternative sources of employment is difficult.

Joint ventures

The Group has two joint venture projects (Omchak and Rudnoye) which operate in various regions of Russia but principally in the Amur Region and the Magadan Region. Many of these joint ventures' mining activities concern underground and alluvial

"It is difficult to find a job around here, and I need something stable as I have a young family. This course not only enabled me to study for free, but best of all I now have a job."

– Artyom Vasyukov, graduate from the Group's college programme

operations. Both Omchak and Rudnoye are 50/50 joint ventures and were established to enter new regions and share expertise.

In-house services

The Group has a highly-skilled in-house services team across Russia. In total, the Group's in-house services companies employ approximately 2,000 people. Many of the Group's in-house services are located in remote regions. This means that, as with the Group's mining operations, they bring valuable investment and employment to these regions as well as work for specialists left redundant after the decline of the Russian mining industry in the 1990's.

The in-house team includes NPGF Regis and Management Company Peter Hambro Mining ("MC PHM"), which use modern technology to undertake a wide-range of specialist exploration activities. In addition to these companies, the Group also has a number of laboratories in the Amur Region and one in the Yamalo-Nenetsky Autonomous Region. These laboratories are located close to the Group's operations and provide analytical services to support mining production and operation.

Operational community relations

At an operational level, the Group works closely with local regulatory authorities to ensure that activities are undertaken in accordance with applicable federal and local regulatory requirements. Given that the Group's operations occur in locations remote from significant settlements, community relations are focused on providing good employment opportunities and working conditions for its workers, playing an important role as a corporate citizen in supporting charitable and community initiatives, and working closely with all levels of local government.

Supporting local education

The Group's policy is to encourage its employees to improve their academic qualifications and level of professional recognition through seminars, conferences, courses and attendance at key academic institutions. The Group also works in close cooperation with local schools providing financial support for much needed books, education tools, laboratory equipment and computer hardware.

At the end of 2007, there were 25 people (employees and their children), studying at universities on Group scholarships. The Group has a number of agreements in place with leading institutions in the Far East of Russia. Through these arrangements, graduates are provided with specific skills and training to take up guaranteed employment at the Group's mining operations.

In November 2007 a technical college was launched at Pokrovskiy. Students there are being trained for the following specialist roles: "block holer", "mill machinist" and "operator-hydro-metallurgist". After successful completion of the exams at the end of the course, the first group of 48 specialists have now joined the Group.

Preparations for the registration and licensing of a new educational centre have also begun. This centre will provide training for future middle management development at Pokrovskiy.



► First group of students taking the graduation exam at the technical college at Pokrovskiy.



► Base for exploration geologists in the Amur Region



“The Peter Hambro Mining Group takes its social projects and programmes seriously. We strongly believe that it is important for the sustainability of our business to take care of the people working for us, and of their families”.

– Sergei Ermolenko, General Director of Management Company Peter Hambro Mining plc

Corporate values & scope of the report

The Group is committed to continuous improvements in health, safety and environmental performance and to sharing the benefits of its activities with the communities within which it operates, so that it leaves behind a positive legacy of stronger, more sustainable communities once mining activities cease.

Corporate values

- The Group aims to operate in a way which avoids causing harm to its 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;
- There is a safe and correct way of doing every task, however urgent or important;

- The Group is aware that it is responsible for its own actions and the workplace health and safety of its employees;
- Health, safety and environmental performance and community engagement can be continually improved.

Sustainability Report

This is PHM's second annual Sustainability Report and it covers the economic, environmental and social performance of the Group's operations for the 12 month period from 1 April 2007 to 31 March 2008.

World Gold Council



In 2007, PHM became a member of World Gold Council ("WGC"), a body comprised of leading gold mining companies from across the world. WGC and its member companies support the Sustainable Development Framework of the ICMM and the International Cyanide management Code. The Group is seeking to manage its operations in accordance with these principles as it is committed to running its operations in a responsible manner, based on international good practice.

To guide its activities, the Group is also implementing the reporting provisions of the GRI – the international standard in sustainability reporting – and those of its pilot Mining and Minerals Sector Supplement.

Whilst this Sustainability Report accords, in broad terms, with the C level of reporting under the latest version of these guidelines (the G3) (www.globalreporting.org), it is the aim of the Group to report under a higher level of application in future reports.



► Children in a nursery close to Pokrovskiy

“At the Group’s internal EHS conference the IFC was pleased to see improvements in EHS management from all of the projects and the interaction between the senior management and the various operations. The shared interest of EHS management was obvious and reflected PHM’s commitments over time to bring its operations into compliance with international EHS best practices.”

– Didier Fohlen, a representative of the IFC at the conference

Approach to reporting

The previous Sustainability Report was published in May 2007 and provided an introduction to the management of environmental, health and safety and community issues at the Group’s operations, and was focused on activities at Pokrovskiy.

Since that report was published, the structure, content and style of the Group’s corporate reporting has evolved, based on its own reporting strategy and feedback. PHM has sought feedback and recommendations from a wide range of audiences including:

- Shareholders;
- The Group’s employees and EHS staff;
- Industry associations; and
- Independent consultancies, including the recommendations made by Citrus Partners LLP and Wardell Armstrong International.

The structure and content of this Sustainability Report reflects and incorporates the feedback received. Specific changes applied from the previous year’s report include:

- Adopting a quantitative approach to sustainability reporting based on KPIs;
- Aligning the report structure with the guidelines of the GRI;
- Extending the coverage of the report and KPIs to include all the Group’s operations;
- Including illustrative case studies from across all areas of the Group’s operations.

The process of introducing quantitative KPIs in PHM Sustainability Reports and operational management is planned to be an evolving process, with the KPIs developed and refined in terms of scope and application based on experience and operational and stakeholder demands.

EHS Management conference

In January 2008, the Group held a conference on sustainable development, social responsibility, industrial safety, work safety and environment at its Moscow office. The purpose of the conference was to define how the Group manages EHS issues as PHM grows into a multi-project mining operation. The aim of the conference was to establish effective communication between the Group’s operations and the Board of Directors, and to present and debate a set of KPIs to be reported to the Board quarterly.

The necessity to ensure that all the Group’s operations are managed to a consistently high standard, and that the Board of Directors has a clear picture of what is happening at such operations was emphasised at the conference by all participants.

The conference reviewed the business development plans of the Group and current Group’s operations against good practice in the gold mining sector. The conference was attended by members of the Board of Directors and the Sustainability Committee, representatives from the IFC, an independent consultant from Citrus Partners LLP and key members of staff from the Group’s mining operations.

As a result, a new and simple performance monitoring and reporting system for EHS issues across all the Group operations was introduced and a set of KPIs agreed. The results of this first set of KPIs are included in this Report.



► Group EHS Management conference

Corporate values & scope of the report (continued)

Vera Usova



Chief Engineer in Environmental Protection MC PHM

Vera Usova is from a village near the Siberian city of Ekaterinburg. She moved to the Russian Far East after finishing her education at The Isovsky Geological College and The Vakhrushev Mining Institute.

Vera held many prominent positions with geological companies before she joined Pokrovskiy Rudnik in July 2001 as Chief Engineer in Environmental Protection. In May 2005 she progressed to Head of the Ecological Safety Department from the mine. The department is responsible for monitoring all emissions from the mine and ensuring that it adheres to Russian environmental protection legislation. Her work in this field won Vera a corporate medal "For Valorous Service" from Pokrovskiy Rudnik in 2006. Her work has also been noted by the government of the Amur Region who awarded her a Certificate of Merit "For long term and conscientious work and creditable service in environmental protection" in 2003.

Vera has also published two Russian language books on ecology in the field of gold mining.

Defining materiality

This Sustainability Report has been prepared in accordance with the GRI reporting principles of materiality, completeness, stakeholder inclusiveness and sustainability context. In defining materiality, traditional financial parameters are often too narrow or inappropriate for non-financial performance. In determining which issues or topics are material to the Group for inclusion in this Sustainability Report, the following issues were considered:

- The Group's core principles and values, set out in its 2006 Sustainability Report and its Corporate Values referred to on page 8 of this Sustainability Report, and its operational policies and procedures;
- Management's assessment of the critical success factors for the fulfilment of the Group's strategy and the strategic objectives of each of its businesses;
- An assessment of the key risks that may impact the successful fulfilment of the Group's strategy, together with an assessment of the key opportunities which the Group has to contribute to sustainable development;
- Feedback from employees and business partners;
- Industry or company-specific issues raised by external stakeholders such as non-governmental organisations, regulators and investors either directly with PHM or indirectly, e.g. through the media or other channels;
- GRI 2002 guidelines (including the Guidance on defining report content) and a review of the indicators and topics included in a range of internationally recognised voluntary initiatives and best practice guidelines, including the Equator Principles and IFC Guidelines for the mining sector;
- A review of the key topics and future industry challenges reported by peer companies and raised by industry groups, such as ICMM and World Gold Council.

Operations reports

This Sustainability Report will be supplemented by a number of operations reports, which will provide further details on the management of the Group's key operations throughout the year. These will set out specific action plans and objectives for key operations, and will be reported in subsequent sustainability reports.

This Sustainability Report and all published operations reports, financial reports and associated publications are available to download from PHM's website, www.peterhambro.com, or as hard copies on request.

Global reporting initiative

To guide its activities, the Group is also implementing the reporting provisions of

Housing for employees



In 2007 the local authority in the Tigda village, located 6 km from Pokrovskiy decided, in conjunction with the management of the mine, to support a local family by buying them a family home.

“We used to live in a small apartment and then, thanks to Pokrovskiy Rudnik, we were able to move into our new bigger house. Our younger daughter said for the first few weeks she thought we had moved into a palace!”

– Galina Kireeva, the wife of a Group employee who was presented with a new, more spacious house

the GRI – the international standard in sustainability reporting – and those of its pilot Mining and Minerals Sector Supplement. Whilst this report accords, in broad terms, with the C level of reporting under the latest version of these guidelines (the G3) (www.globalreporting.org), it is the aim of the Group to report under a higher level of application in future reports.

Presentation of data and content

The narrative and quantitative information in this Sustainability Report covers Group operations. Data has been gathered and collated from across all Group operations on a standardised basis to allow broad comparisons to be made amongst operations.

Vitaly Kireev has worked as a machinist at Pokrovskiy for eight years, his wife Galina is a housewife. Together they are bringing up three children, the youngest of whom, Verochka is 5 years old. For many years the family did not have a house and the help from the Group has transformed their everyday lives. The management of the mine also presented the family with a new TV set for the new house and toys for the children.

The Group's policy is to try to help employees to get their own accommodation, providing financial support where necessary. This support for Vitaly and his family was an outstanding example of the support that is provided to particularly deserving employees and their families.

During the past year, the Group has focused its attention on developing and implementing a set of KPIs that will not only be of interest to shareholders, but which will also help the Group to manage its business more effectively without causing undue disruption. Future reports will undergo independent assessment as the sustainability monitoring system is fully embedded into everyday operations.

Feedback

The Group welcomes all feedback on this Sustainability Report, the information provided in it and on the Group's activities generally. Please fill in the website feedback form available at www.peterhambro.com/feedback, or email PHM at sustainability@peterhambro.com. Contact details for the relevant Group personnel are also on PHM's website.

Operations in which the Group has an interest but is not the operator (i.e. assets over which the Group exerts “significant influence” under GRI definitions), are not included in the sustainability data reported, but are referred to from time to time in the narrative text of this Sustainability Report. A full list of the Group's operations, including ownership information and production capacity, is provided in the 2007 Annual Report.

A summary of key sustainability data, including production data, is provided on pages 16 to 19 of this Sustainability Report. This is supplemented by a more detailed performance datasheet provided on PHM's website.

Vladimir Riabikin



Head of Audit and Licensing Department MC PHM

Vladimir Riabikin began his career in 1973, when he graduated from the Moscow Geological Institute with a degree in mining engineering. He also holds a Master of Science in Management as well as a PhD in Economics.

An accredited geologist, Vladimir also holds a prestigious Russian rank. Prior to his position with the Group, Riabikin worked for the Ministry of Construction Materials and for the Ministry of Geology in the USSR for 20 years, where he progressed from senior engineer to Head of Department and was responsible for mining licensing and geological questions regarding solid minerals. He was also responsible for the Audit Chamber, where he controlled the efficiency of State property usage in the oil industry of the country.

His high standard of education and his long career in the natural resources sector have given Vladimir excellent experience in social responsibility issues.

Governance structure & management systems

The Group's sustainability commitment at an operational level translates into a series of corporate values that the Group is working to integrate into everyday operations to reinforce and give real effect to its sustainability commitment.

Overall approach to governance

PHM is committed to high standards of corporate governance. Details of how the Group has applied the principles of good governance can be found in the 2007 Financial Statements, available to download from PHM's website www.peterhambro.com.

Sustainability Committee

In 2007, PHM established a Sustainability Committee at Board level consisting of three Non-Executive Directors and one Executive Director. The role of the Sustainability Committee is to evaluate the effectiveness of the Group's environmental, health and safety policies and management of environmental risks across all of the Group's operations. In 2007 the Sustainability Committee met regularly and reported its findings and recommendations to the Board. Further action was discussed and implemented, where appropriate.



The Sustainability Committee operates independently from the Board of Directors and the Board provides the Sustainability Committee with resources to enable it to carry out its duties. Further details of the Board of Directors (including other Board Committees) can be found in the Corporate Governance Statement of the Financial Statements 2007. Details of the biographies of the Sustainability Committee Members and other members of the Board of Directors can be found in the Annual Report 2007. The terms of reference of the Sustainability Committee are available upon written request, addressed to the Company Secretary.

EHS structure and reporting systems

The Committee is supported by MC PHM (based in Russia) and the Environmental Department in Blagoveschensk, which support Group operations and have extensive experience of mine environmental management and employee and community welfare. Environmental staff working directly at project level are also integrated into a Group-wide system of EHS performance monitoring and reporting.

EHS performance data is reported on a quarterly basis internally, based on a system of KPIs that have been developed and agreed by Group environmental staff. Data is reported to the Sustainability Committee for independent review and corrective actions are agreed and follow-up actions monitored.

Overall approach to stakeholder engagement

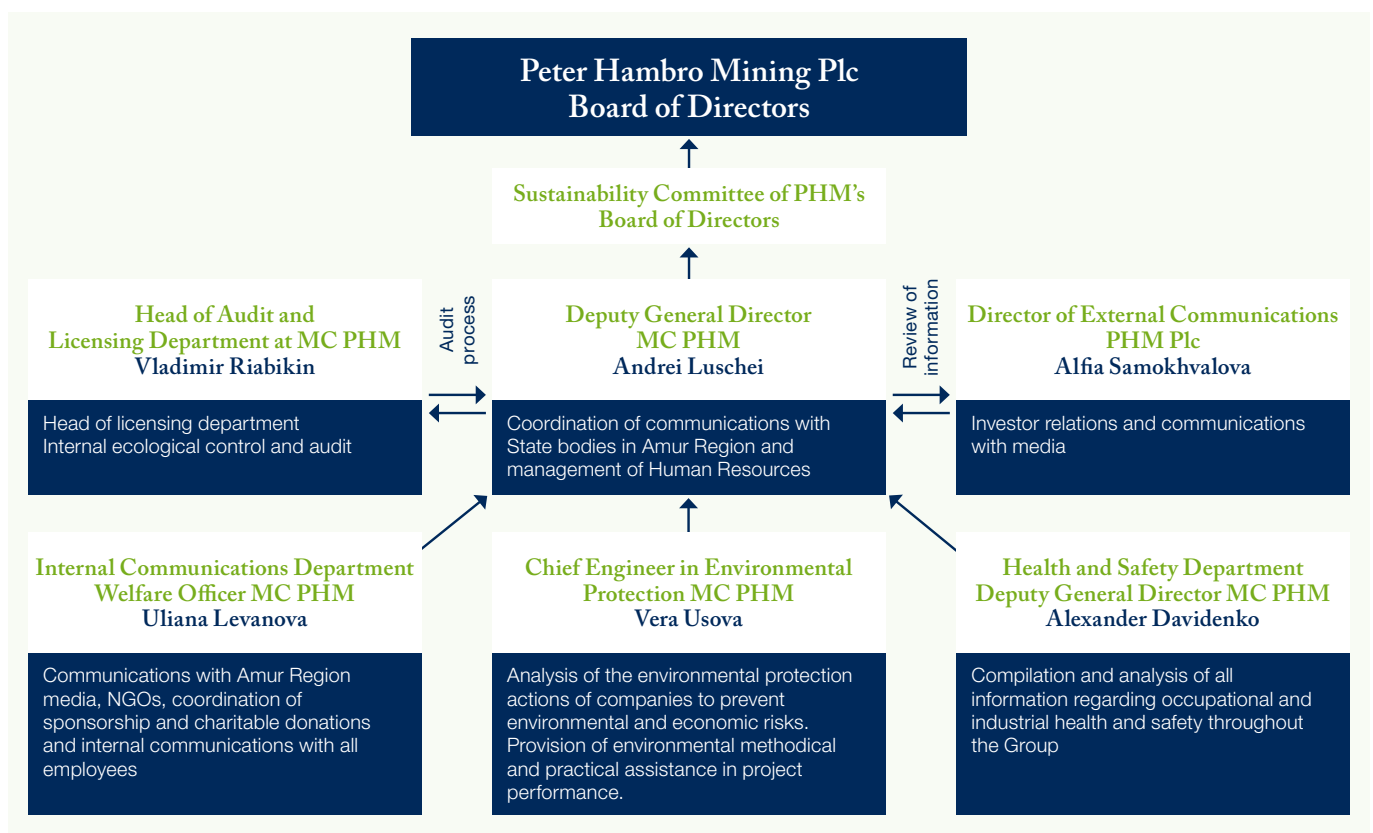
The Group recognises that, as a business, it operates within a broader economic and social context. The Group seeks to engage with stakeholder groups in a manner that is culturally appropriate, effective and transparent. The Group encourages dialogue with its stakeholders and integrate stakeholder feedback into business planning and strategy.

Corporate-level disclosure and communication

At a corporate level, the Group is committed to an ongoing dialogue with its shareholders and stakeholders, relevant regulatory authorities and other interested parties. Existing shareholders and other members of the wider investment community are the key target audiences for PHM's corporate reports. In addition to these primary target audiences, this Sustainability Report is written to provide a broad range of stakeholders with information about the Group's economic, environmental and social policies, performance and standards. It complements the Annual Report 2007 in this regard. This broader range of stakeholders includes governments, existing and prospective employees and their families, development organisations and NGOs, business partners (e.g. suppliers and customers), media, unions, local communities and others.

“Pokrovskiy Rudnik has not paid a single fine for environmental breaches since inception of operations.”

– Vera Usova, Environmental Department (Blagoveschensk)



Giving back to a local community

Pokrovskiy Rudnik considers it is important to use a part of its profits to help those in need. It has donated more than 40m roubles to social programmes in the Amur Region over the past 11 years.

The Group has established a fund for social support which is used to support organisations and individuals located close to Group operations. In 2007, in the Magdagachinskiy Region, 12 day-care centres were given TV sets, music centres, washing machines, refrigerators and cooking appliances from this fund. A village school in Chilcha in the Tyndinskiy region was equipped with computers. Financial support was also given to day-care centres in Tokur, Zeya and other regions.

In 2007, Ivan Mischenko, a teacher in the village school of Belogoriya, was sent to Moscow for the celebration of the anniversary of the Victory in WWII for having organised a museum of the war in the school.

Pokrovskiy Rudnik also sponsors cultural events, clubs and cultural centres. In 2005, Pokrovskiy Rudnik was a general sponsor of the autumn cinema festival in the Amur Region and it also contributed 500,000 roubles to the organisation of the fireworks for the 150th anniversary of the foundation of Blagoveschensk.

Pokrovskiy Rudnik participated in the construction of a church in the village of Magdagachi. The construction of the church took six years and was finalised in April 2008 with significant support from the Group.



► Russian birch trees



“Measures to improve our sustainability are not in opposition to prudent financial management. They are a key element of our business strategy and fundamental to our day-to-day operations and planning.”

**Philip Leatham,
Chairman of the Sustainability Committee**

Key performance indicators

The Group is implementing a strategy to align its sustainability reporting with the requirements of the GRI. As such, the Group has begun the process of introducing a system of quantitative KPIs to be used for the reporting and management of environmental performance across its operations.

Economic performance indicators

The Group has selected economic performance indicators that provide a good impression of the economic progress of the Group. These comprise:

- Group turnover;
- Underlying EBITDA;
- Staff costs;
- Royalties and taxes paid by Pokrovskiy.

Economic performance indicators provide a context within which to evaluate the other indicators; they enable an assessment to be made of the performance of the operations against cashflow generation. These indicators also illustrate the impact of operations on local communities through both employment income and taxes.

Environmental performance indicators

Environmental performance indicators have been selected based on the Group's own appreciation of its business and a comparison with indicators used by other companies. Environmental performance indicators comprise:

- Water use;
- Land disturbance and rehabilitation;
- Use of raw materials;
- Energy use;
- Discharges to water;
- Environmental incidents.

The environmental performance indicators provide a tool by which to assess the "environmental footprint" of the Group's operations. Mining operations use significant quantities of water for ore

processing and the Group has sought to ensure that the indicators will enable it to monitor its effectiveness in minimising water consumption through water recycling. The Group's indicators of land

Health clinic

The health of the Group's employees is a high priority for management. As a result of years of experience operating in remote areas, the Group has evolved a successful structure for supporting the health of all employees. At the Pokrovskiy mine a health centre was established 5 years ago offering 24 hour support provided by a dedicated team of a doctor and several nurses. The centre provides day to day clinics and also runs yearly vaccination programmes and preventative examinations for all employees. In addition to this, the Group has contracts with the main hospitals in the region where employees can be referred in more difficult or complex cases. A 24 hour ambulance also operates at the site.

The Group also provides financial support to local hospitals and clinics. In 2007, the Group bought new medical equipment for Tyndinskiy Central hospital and other local hospitals. Three doctors from the regional clinical hospital were also sponsored by the Group to attend courses in St. Petersburg and Moscow.

► Health centre at Pokrovskiy



“The Group's operations in the Amur Region are well-run. Operations appear to be in full compliance with Russian regulatory requirements and the Group adopts a pro-active approach to ensuring compliance with a complex and changing regulatory framework.”

**– Alex Mayhook-Walker,
Citrus Partners LLP**

disturbance and rehabilitation should enable it to monitor its progress in minimising the amount of land under active operation at any one time, and in the progressive rehabilitation of land that is no longer being used.

The consumption of energy and materials, and the discharge of waste products, are key impacts of mining operations and a comprehensive range of indicators has been introduced to monitor the Group's performance. As electrical power for the Group's operations is derived from nuclear and hydro power, the carbon emissions from the Group's operations are limited to emissions from vehicles and mobile plant.

Health and safety performance indicators

Health and safety performance indicators have been selected to provide an assessment of the Group's commitment to occupational health and safety and to reflect its success in the implementation of a health and safety culture within its operations. Health and safety performance indicators relate to:

- Number of illnesses and injuries;
- Number and frequency of injuries;
- Internal safety procedure and regulatory permit violations;
- Safety related fines and prosecutions;
- Training.

The health and safety of the Group's workers is its principal concern and the Group provides workers with the appropriate training and equipment for the tasks that they are required to undertake. The indicators selected will enable the Group to monitor the effectiveness of its training and procedures and to identify areas for improvement.

Social performance indicators

Social performance indicators have been selected to reflect the impact that the Group has on, and the contribution it makes to, the communities within which it operates. Social performance indicators comprise:

- Number of staff employed;
- Training and education provided to staff;
- Community and charity initiatives;
- Expenditure on community and charity initiatives;
- Complaints received.

MC PHM newspaper

MC PHM circulates a free newspaper magazine every month to its employees. The newspaper includes a mixture of corporate and geological news, general news from Group operations, interviews with management and general members of staff, birthday greetings to members of staff, news from the areas in which the Group operates and details of the Group's charitable activities.



Key performance indicators (continued)

Economic KPIs

	Units	2007 Performance
Group turnover	US\$m	226.4
Underlying EBITDA	US\$m	84.2
Staff costs	US\$m	48.6
Royalties and taxes paid by Pokrovskiy	US\$m	31.6

KPI Summary

The information presented on these pages is the Group's first set of published key performance data. As such, this provides a starting point for a process of ongoing evaluation and continuous improvement as the Group seeks to use the KPI data to enable it to make better management decisions.

Health and Safety KPIs

	Units	Performance	Status
Number of occupational illnesses reported	Number	1	●
Total recordable illness	Number	1,028	●
Total recordable illness frequency rate	Number per million hours worked	3	●
Number of injuries causing disability	Number	16	●
Disabling injury frequency rate	Number per million hours worked	7	●
Safety procedure violations (from internal inspections)	Number	784	●
Safety fines (external and internal)	Number	22	●
Safety prosecutions	Number	0	●
Worker health & safety training	RUB	2m	●

As a rapidly growing mining business, the Group's focus is on maximising its economic performance while minimising its environmental impact.

On a range of matters, the Group has used the KPI system to identify priority areas for improvement. These are principally related to the minimising of health and safety related issues and in reducing the number of reported environmental incidents.

Implementation of the KPI system will help the Group to measure its performance on an annual basis as it seeks to minimise its environmental footprint through land rehabilitation and the more efficient use of chemical reagents.

The principal source of power used, apart from vehicles and mobile equipment, is electrical power. This is drawn from the local supply grid and is generated by nuclear and hydro power plants. As a result, the carbon dioxide emissions from the Group's operations are low and are limited to vehicle emissions.

Social KPIs

	Units	Performance	Status
Number of permanent staff employed	Number	2,722	
Number of temporary staff	Number	395	
Number of contractors	Number	293	
Funds spent on community/ education initiatives	RUB	1.3m	●
Complaints received	Number	0	●

Key

- Meets or exceeds performance targets and regulatory requirements
- Meets targets and/or regulatory requirements, but further action required
- Priority action needs to meet targets and/or regulatory requirements

“Without the financial help of Pokrovskiy Rudnik we would not have been able to win overall third place, nor would we have been able to go to England.”

– Alexander Brilin, Director of the Amur Region swimming club, Aquias Sport

Environmental KPIs

	Units	Performance	Status
Water Use			
Raw water used	m ³	2,321,309	●
Recycled water	m ³	34,115,234	●
Water discharged	m ³	583,712	●
Land Disturbance & Rehabilitation			
New land disturbed during the reporting period	ha	725	●
Total land used	ha	2,359	●
Mining reclamation	ha	63	●
Land rehabilitated during the reporting period	ha	28	●
Total land rehabilitated	ha	37	●
Raw Materials Used			
Overburden and ore removed	Tonnes	11,016,000	●
Ore processed	Tonnes	3,410,000	●
Reagents used (specify)			
Sodium cyanide	Tonnes	726	●
Caustic soda	Tonnes	579	●
Paraform	Tonnes	8	●
Quicklime	Tonnes	3,113	●
Sulphuric Acid	Tonnes	1,057	●
Thiourea	Tonnes	214	●
Ion-exchange resin (AM-25)	Tonnes	52	●
Lubricating oil	Litres	75,740	●
Explosives	Kg	47,266	●
Energy Use			
Mains Electricity (1)	kWh	73,280,000	●
Diesel	Tonnes	17,887	●
Coal	Tonnes	1,943	●
Natural Gas	Tonnes	709	●
Greenhouse Gas Emissions			
Emissions from gasoline fuel	Tonnes CO2-e	923	●
Emissions from diesel fuel	Tonnes CO2-e	15,329	●
Emissions from other fossil fuels	Tonnes CO2-e	6	●
Discharges to Water			
Environmental Incidents			
Category 1 - Minor		77	●
Category 2 - Moderate		35	●
Category 3 - Serious		1	●
Permit violations	Number	0	●
Environmental fines and fees	Number	6	●
	RUB	39,000	●

Sponsorship in local communities



The Group is proud to invest in the local communities in which it operates.

During 2007, Pokrovskiy Rudnik sponsored a swimming team from the Amur Region to enable it to compete in the sixth, world cold water swimming championship, held in London.

Pokrovskiy's support helped to fly the team, made up of 14 men and women of all ages, to London where they competed against teams from 51 other countries. After an excellent display, the Aquias Sport team finished in overall third place.

Lada Kovalevskaya, the daughter of a chemical engineer at Pokrovskiy Rudnik who competed in the under-20s class, wrote about her experiences of flying to London for the competition in a moving piece for MC PHM magazine. Having lived in the Russian Far East all her life, it was the first time she had visited England.

Following the tournament, Alexander Brilin, director of the Amur Federal Swimming Club, paid tribute to the Group for helping his team to reach its goals. Fellow organiser Oleg Degtiaryov also thanked the Group for its support.

Key facts

Uliana Levanova



Director of Internal Communications Department/Welfare Officer

Uliana Levanova was born in the Amur Region in a little settlement not far from the Pokrovskiy mine. She graduated from the pedagogical university in Blagoveschensk and Khabarovsk Academy of Law and Economics.

She started working for the Group as a lawyer in 2004 at Pokrovskiy Rudnik and in 2005, Uliana was appointed to her current job to facilitate and encourage communication between management and mine workers, between Pokrovskiy Rudnik and the local communities and regional administration. In this capacity she organises the publication of the Group's internal magazine, and attends the Group operations where she carries out informal talks with employees providing a constant feedback to the management.

She works closely with the trade union of the Pokrovskiy mine and helps ongoing dialogue with local authorities, communities, media, non-government organisations and charitable organisations.

Over the last 14 years, the Group has become a major employer of choice and the biggest non-governmental tax payer in the Amur Region.

History

1994 Pokrovskiy licence acquired and the Group is founded

1999 first gold at Pokrovskiy poured

2002 admission of the Company's Ordinary shares to trading on AIM



Financials

US\$81.4m – Group's adjusted operating profit in 2007

Profit in 2007 – **60% higher** than the previous year

US\$668 oz – average gold sales price achieved by the Group in 2007

Average gold sales price in 2007 – **17% higher** than in the previous year



Operations

297,300 oz – Group's total attributable production in 2007

US\$193/oz – total cash costs of Pokrovskiy in 2007



Employees

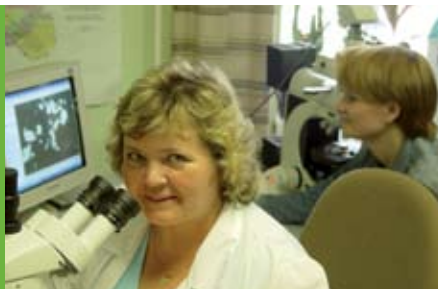
The Group pays competitive salaries and other benefits to attract and retain the best people in the industry. The Group operates a comprehensive educational and training programme for its workforce. The Group strives to remain a major employer of choice in the Amur Region.

Amur Region

The Amur Region is located in the south of the Russian Far East.

c.360,000km² – total area of the Amur Region

c.874,600 people – total population of the Amur Region



Development

2 deposits have been developed by the Group from greenfield into production sites since the Group's inception. The development of the deposits carried out by the Group's own specialists helped to optimise both timing and capital expenditure of the projects.

Exploration

Usually exploration is carried out in remote places bringing additional employment to these areas.

30 projects are currently being explored by the Group

6 regions of Russia where the Group maintains its exploration activities



Management

The Group's Board of Directors seeks to ensure compliance with the best industry corporate governance guidelines.

10 Directors on the Board of the Company

5 Committees comprised mainly of Non-Executive Directors

Alexander Alekseevich Davidenko



Deputy General Director of Health and Safety MC PHM

Alexander Davidenko graduated from the Politechnicheskiiy Institute in Irkutsk (Russia), with a degree in Mining Engineering.

After finishing university, he held a series of high-profile positions with leading open-pit and underground mining companies both in Russia and abroad.

These positions included leading power engineer, chief mechanic, chief engineer and managing director.

This has given him "hands-on" experience of both working in the mining industry and of environmental, health and safety issues, particularly in the context of the industry's requirements.

In his position as Deputy General Director of Health and Safety at MC PHM, he seeks to ensure that all Group operations are run in accordance with Russian legislation and best international practice.



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Product group from well-managed
forests, controlled sources and
recycled wood or fiber

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