

# SUSTAINING FUTURE PERFORMANCE

Sustainability Report 2009



**PETROPAVLOVSK**

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We are building a natural resources champion in the Russian Far East with an exceptional portfolio of assets based on our wealth of knowledge and experience.

The support of the communities in which we work has been crucial to our success to date and we recognise a need to continue to operate in a way that is socially and environmentally responsible.

## Highlights 2009

### Corporate highlights

- Move to the Main Market of the London Stock Exchange and inclusion in FTSE 250 index
- Acquisition of Aricom plc and rebranding and repositioning of the Group as a diversified metals and mining champion
- Earnings per share up 263% versus 2008 and interim dividend of £0.07 per share declared in January 2010\*

### Financial highlights

- Underlying EBITDA up 65% versus 2008 to US\$225m
- Group revenue up 24% to US\$472m
- Balance sheet strengthened and net debt reduced by 95% to US\$19 million

### Operational highlights

- Attributable gold production up 21% to 486,800oz
- Total cash costs of US\$309/oz
- 103% increase of Proven and Probable reserves to 6.75Moz gold

\*Past performance cannot be relied on as a guide to future performance

## Key numbers, markets and operations



### Pokrovskiy

- Our first gold mine in West Amur
- Production commenced in 1999
- 2009 production: 190,100oz



### Pioneer

- Production commenced in 2008
- 2009 production: 234,100oz
- Full production: 300,000oz – 400,000oz per annum



### Malomir

- Production scheduled to commence in H2 2010
- Two-phased development
- Full production: c.400,000oz per annum



### Albyn

- Production scheduled to commence at the end of 2011
- Infrastructure work commenced
- Full production: 205,000oz per annum



### Kuranakh

- Medium-sized iron ore project
- Production to commence in H1 2010
- Full production: 1.2mt iron/ilmenite concentrate per annum



### K&S/Garinskoye

- Large-scale iron ore projects
- Financing negotiations ongoing
- Full production: 8.3mt iron ore concentrate per annum

## CHAIRMAN'S INTRODUCTION



**“As a successful and rapidly-growing mining company, we recognise the importance of operating in a safe and responsible way to ensure that our business is respected at both a local and federal level within Russia, and by the global investment community as a whole.”**

I am delighted to present our fourth annual Sustainability Report. This is the first time that we have reported across the breadth of both our Precious Metals and Non-Precious Metals Divisions and reflects the significant efforts we have made in implementing our sustainability plans during 2009.

We have been operating in Russia for over 15 years and recognise that a successful business is one that is sustainable and supported by the communities and environment within which it operates. Our approach is to respect the communities that host our operations and to carry out our business in a socially and environmentally responsible manner. By striving to make our business sustainable, we also support our continued growth and development.

As a successful and rapidly-growing mining company, we recognise the importance of operating in a safe and responsible way to ensure that our business is respected at both a local and federal level within Russia, and by the global investment community as a whole. The Group takes compliance with Russian health, safety and environmental legislation extremely seriously and are working towards bringing projects in line with international best practice.

The Group seeks to ensure that its workforce feels valued and respected through the provision of first-class facilities and safe and comfortable working conditions. It is committed to supporting local educational institutions, providing suitable on-site training and support, enabling individuals to reach their full potential.

We continue an important internal and external dialogue with stakeholders about effectively combining the delivery of shareholder value with caring for our employees, supporting local communities and minimising our impact on the environment, and we use the Global Reporting Initiative (“GRI”) indicators to measure and report on our progress.

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. I would also 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 continued level of effort that we have been able to achieve the excellent results presented in this report.



**Peter Hambro**  
Chairman

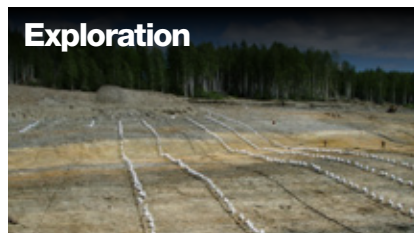
# PRODUCTION LIFE CYCLE AND OUR IMPACTS

Petropavlovsk operates a phased development strategy that has led it to become a leading Russian gold producer and an emerging industrial metals producer. An extensive in-house team manages all aspects of the business; from the early stage exploration, through to the development and construction of a mine and its eventual closure.

The impacts of the Group's operations are managed throughout this project life cycle, addressing environmental, health and safety, workforce and community relations issues.

## Step 1

### Exploration



The objective of geological exploration work is to determine whether sufficient amounts of metal are present in the ground to ensure mining operations are commercially viable. The exploration work undertaken by the Group ranges from initial surveying to the detailed delineation of ore bodies and reserves and resources calculations for feasibility studies and mine planning purposes. Further exploration is undertaken once mining works have commenced to ascertain whether the mine life can be extended either at the current mining site or whether mining operations can move to satellite deposits.

### Regulation

In order to undertake exploration activities in Russia, a licence must first be granted by the Federal authorities. Exploration activities are regulated by environmental and health and safety authorities and, where possible and required by regulation, any environmental damage (such as exploration trenches) is rectified once exploration activities have been completed.

### Innovation and technology

The Group's exploration work is mainly undertaken by two subsidiary companies, Regis and Dalgelogiya. Their work is supported by the Group's network of analytical laboratories, its metallurgical test plant and its scientific research centre, Gidrometallurgiya. These world-class institutions have developed new innovations and technology, beneficial not just to the Group but to the development of the Amur Region as one of Russia's leading mining regions. The Group has been able to draw on this expertise to develop programmes which support further and higher education in the region, while simultaneously providing the Group with skilled and qualified personnel.



## Step 2

### Development and construction



Once sufficient exploration has been undertaken and the economic viability of a project has been established, work on the design and commercial planning of the project commences. This work is mainly carried out by the Group's subsidiaries PHM Engineering (design engineering), Irgiredmet (process design), and Kapstroï (engineering and construction).

#### Environmental studies

During the design phase, environmental studies are undertaken to understand the potential impact of a project on the local environment. Where necessary, designs may be revised to minimise the projects environmental impacts. Consultation is undertaken with the local community to identify any issues which require special attention to minimise the impacts on the local environment and local communities.

#### Mine development

Mine construction is arguably the most dramatic phase of the mine lifecycle and turns a Greenfield exploration site into a fully functioning mining operation. It involves the construction of processing plants, open pits, waste rock stockpiles, tailings, management facilities, roads, worker accommodation and a range of ancillary facilities. Construction and development can continue even after a mine site has been commissioned. The Group has historically developed its projects in a phased manner; additional processing lines are constructed alongside existing ones. This allows revenues from the first production to be used to finance the next development phase.

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For further details about  
**Health and safety**

## Step 3

### Extraction and production



The majority of the Group's operations are open pit. This involves the stripping of any surface rocks, extraction of ore, stockpiling of waste rock and ore, processing of ore and disposal of tailings. Throughout a project's mine life, extensive environmental monitoring is undertaken to ensure that no adverse impacts are created outside the direct 'footprint' of the mine. Monitoring is carried out in line with industry best practice and Russian legislation.

#### Constant monitoring

The Group's laboratories are certified by the State and are authorised to monitor air, water and soil quality, tailings and waste management and rehabilitation and restoration programmes at the mine and in the surrounding area. Gold is recovered at the Group's open-pit gold operations using RIP processing and heap-leach technology. These are cyanide-based processes to extract the metal from the milled ore. In order to manage cyanide safely and correctly, the Group follows strict legal requirements and best industry practices. The Group is currently working towards further aligning its practices with the International Cyanide Management Code.

In addition to these mines, the Group has a small number of alluvial deposits that it holds either directly or through joint ventures. Some alluvial mining is also undertaken where river gravels are dredged, and gold is extracted by non-chemical gravity processes. Excavated gravels are regularly back-filled to minimise environmental damage, and to minimise the area of open workings at any one time.

#### Community dialogue

The Group has taken steps to ensure that the dialogue with local communities that was established at the earlier stages of mine development is maintained throughout the life of the mine. The Group sets aside some of its revenues to put towards community projects or to promote the welfare of its workers.

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For further details about  
**Environment**

## Step 4

### Closure and rehabilitation



Mining operations may last for several years as even when reserves in the main ore body have depleted, mining may move to surrounding "satellite" deposits, prolonging the life of the mine. Indeed, there have been incidents of mines in Russia being in operation for more than 200 years. Nevertheless, mining by its very nature is a depletion industry. Although the Group has not yet decommissioned a full, operating mine, it recognises the importance of planning for this date is making financial provision for closure costs.

#### Progressive rehabilitation

In accordance with Russian legislation, conceptual closure plans are prepared as part of the preliminary design studies and these are continually updated until the point when a project approaches the end of its life. Progressive rehabilitation is undertaken throughout the life of a project via the backfilling of exhausted open-pit areas and the revegetation of completed waste rock stockpiles. At the point of closure, all superfluous infrastructure is typically dismantled and removed, and the land is reprofiled and reseeded with trees and returned to the State. Similarly, any tailings management facility would typically be covered with a layer of topsoil and replanted.

#### Community impacts

Once a large project such as a mine has closed, it can be difficult for the community to adapt, especially if it has got used to relying on the mine for jobs and to support other local industry, such as agriculture. However, the Group envisages that its active exploration work and development plans in the mineral-rich Amur region will ensure that new projects will replace depleting ones, allowing workers to transfer to new sites of development and continue their employment with the Group.

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For further details about  
**Community**



### The Amur region and EAO

The majority of the Group's operations are based in the Amur region in the Far East of Russia. The Amur River extends along 1,246km of the southern border of the region and is the official frontier line between Russia and China. The region has a total area of c.361,600km<sup>2</sup>, making it roughly the same size as Germany, with a small population of approximately 1 million. Most of the Amur's population live in Blagoveshchensk, the regional capital. The remaining settlements are mainly located close to the region's rail networks: the Trans-Siberian Railway and the Baikal-Amur Railway.

The region's key industries are mining, transportation, forestry and farming. There are two large hydroelectric power stations in the region with plans for the construction of three more and the region is the third largest timber producer in the Russian Far East.

The Amur region lies across the middle section of one of the world's major geological belts of mineralization, the Mongolo-Okhotskiy zone. Documented evidence shows that gold has been mined in the region as far back as 1867. In recent years the Amur has become one of the leading Russian gold mining regions, with over 20 tonnes extracted in 2009 alone.

The region also possesses a wealth of other minerals including iron ore, as well as base and precious metals.

The Group's K&S iron-ore project is located in the EAO. The EAO (the Evreyskaya Avtonomnaya Oblast, or Jewish Autonomous Region) borders the Amur to the west and China to the south and East. It has a total area of c.36,300km<sup>2</sup> and a population of approximately 200,000.

# VALUES AND BUSINESS STRATEGY

Petropavlovsk recognises that a successful business is one that is sustainable and is supported by the communities within which it operates. The Group's approach is to respect the communities in which it operates and to undertake its business in a socially and environmentally responsible manner.

## Our business strategy

Petropavlovsk's consistent and focused strategy since its inception in 1994 is based around its core strength of developing low-cost mining assets in the Amur region from Greenfield sites to operational mines utilising a phased development approach and an experienced in-house team. This team of highly-skilled professionals possesses excellent specialist and local knowledge which has been cultivated by the Group thanks to its established culture of innovation and its commitment to employing local people at all levels within its operations.

## Our values and vision

Petropavlovsk aims to act with honesty, integrity and corporate social responsibility on health, safety and environmental issues. The Group endeavors to operate in a way that ensures the health, safety and security of employees, contractors and local communities, and to limit negative impacts on the local environment. The Group takes compliance with Russian EHS legislation very seriously, and is seeking to align its projects with international best practice.

In planning its approach to business, Petropavlovsk understands that it has duties to its shareholders and responsibilities to a wider group of stakeholders who can affect or who are affected by our activities. The Group recognises that operating in a safe and responsible manner will not only guarantee a safe working environment but will also ensure that Petropavlovsk's business is respected at a local and federal level, and by the investment community worldwide.

Since inception, the Group has sought to create a positive legacy within the communities in which it operates and to support economic and cultural development. The Group has an active dialogue with communities in the Amur region and has supported many charitable and cultural activities. The Group is a major employer in the region and seeks to provide workers with long-term career and personal development opportunities. This emphasis on training and development ensures that the Group is provided with qualified, experienced and motivated staff while simultaneously bringing economic benefits to the region as a whole through support of local educational institutions and job creation.



## 486,800oz

Total attributable production for 2009 increased 21% to 486,800oz.

## 7,766

Average number of employees in 2009.

**Left**  
Worker at the Kuranakh, the Group's titanomagnetite-ilmenite project located in the north of the Amur region in the Russian Far East.

## Year-on-year development

Petropavlovsk has developed a three-year rolling sustainability timetable, setting out the principal activities and milestones to be reached by the Group in the immediate and near future. This Action Plan covers 2010–12 and is updated on an annual

basis. The objective of the Group's sustainability timetable is to outline the steps the Group needs to make in order to continue its quest to align its operations with international best practice while simultaneously ensuring that all Russian regulatory and procedural requirements are met. As a Group with well-established

mining operations and a portfolio of projects at different stages of development, Petropavlovsk has adopted a phased approach to ensure that disruption is minimised as new approaches and procedures are introduced at new operations.

	2009	2010	2011	2012
<b>Corporate</b>	Sustainability Report produced in accordance with GRI	Corporate stakeholder management system introduced  Development and implementation of Community Investment Trust or similar  Sustainability Report produced in accordance with GRI	Development of Corporate EHS and Community Relations management systems  Sustainability Report produced in accordance with GRI	Sustainability Report produced in accordance with GRI
<b>Pokrovskiy &amp; Pioneer</b>	Implement Health & Safety Management System to ISO18001  International Cyanide Management Code audit undertaken	Implement International Cyanide Management Code audit findings	Further alignment with International Cyanide Management Code	Measures to obtain certification of International Cyanide Management Code
<b>Malomir</b>	Environmental baseline studies and initial consultation undertaken	Environmental & Social Impact Assessment (ESIA) prepared	Implementation of new EHS management systems  ESIA Update prepared for full-scale operations, to include tailings dam safety assessment	Measures to obtain certification of International Cyanide Management Code
<b>Albyn</b>	Environmental baseline studies and initial consultation undertaken	Environmental baseline studies and initial consultation undertaken	Environmental & Social Impact Assessment (ESIA) prepared in parallel to licensing process	Implementation of new EHS management systems
<b>Kuranakh</b>		Project start-up and implementation of Environmental and Social Action Plan  Agreement with Evenk indigenous people	Implementation of new EHS management systems	
<b>K&amp;S</b>	Environmental baseline studies and initial consultation commence	Environmental baseline studies and initial consultation undertaken	Environmental baseline studies undertaken	Environmental & Social Impact Assessment (ESIA) prepared



# SETTING PRIORITIES

Petropavlovsk's mission is to contribute to social progress and societal wealth generation via the profitable production of essential commodities thus increasing all stakeholder prosperity. This mission is integrated with the Group's desire to operate in a responsible fashion, adhering to current Russian EHS legislation and aligning with international best practice.

## Materiality

Petropavlovsk sets its priorities based on balancing the benefits of its business against the risks at both project and Group level. The Group is committed to meeting regulatory requirements and adopting international good practice where this can improve the efficiency and safety of its operations. The Group's management team reviews the Group's progress on an ongoing basis and reports regularly to the Group's HSE Committee. The Committee in turn monitors, reviews and makes appropriate recommendations to the Board on the state of health, safety, environment, social and community relations issues in the Company and the best industry practices and the most recent requirements of the London Stock Exchange. The Board's recommendations are in turn passed back to key management for their implementation.

## Stakeholders

The Group believes that communicating and engaging with its stakeholders helps it to set its priorities and ensure that it can achieve its objectives. Petropavlovsk defines its stakeholders as the people and organisations which can affect, or be affected by its business. Stakeholders include:

- The Group's workforce;
- The Company's investors;
- Members of the communities in which the Group operates;
- The regulators and government authorities who oversee the Group's activities;

- The Group's suppliers and service providers; and
- Any person who has an interest in the Group's activities.

## What the Group reports on

The Group aims to publish a Sustainability Report annually. This report is prepared in accordance with the reporting guidelines of the Global Reporting Initiative ('GRI').

In preparing this Sustainability Report, the Group has sought to focus on:

- The significant environmental, health and safety and community issues facing the Company;
- The interests and expectations of a range of stakeholders;
- Legislation and issues relevant to the Group's operations; and
- Reporting the Group's progress and challenges in implementing generally accepted international best practice.

This report also reflects the performance indicators used internally which were set up by the Group to help to identify the progress of Petropavlovsk year-on-year. The topics addressed in this report relate to the key issues encountered during mine exploration, development, construction and operation. The report covers all operations directly owned and controlled by Petropavlovsk during the Group's 2009 financial period.

## Petropavlovsk's guiding principles

The Group seeks to:

- Implement and maintain ethical business practices and sound systems of corporate governance;
- Integrate sustainable development considerations within the corporate decision-making process;
- Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by the Group's activities;
- Implement risk management strategies based on valid data and sound science;
- Ensure continual improvement of the Company's health and safety performance;
- Ensure continual improvement of the Company's environmental performance;
- Contribute to conservation of biodiversity and integrated approaches to land use planning;
- Facilitate and encourage responsible product design, use, re-use, recycling and disposal of the Group's products;
- Contribute to the social, economic and institutional development of the communities in which the Company operates; and
- Implement effective and transparent engagement, communication and independently verified reporting arrangements with Group stakeholders.

# LASTING INVESTMENT IN OUR PEOPLE

Since inception, Petropavlovsk has been focused on the training and development of its staff and it strongly believes that the team it has established over the last 16 years has been a core part of its corporate success. As a result, the Group has taken a number of steps to retain the talent of its workforce by offering good wages, a competitive healthcare programme, a generous pension scheme, and high quality accommodation.

## Case Study

"I came to the Pokrovskiy mine after graduating from the Blagoveschensk Polytechnic College. I started work as a crusher operator at the heap leaching site and having worked for two years, I approached our management with the idea to obtain a higher education diploma in geology in order to further my career. Such initiatives have always been encouraged. Subsequently whilst studying as a distance-learning student, I became a shift foreman at Pokrovskiy, then a technician geologist, and later a geologist at the Pioneer mine. My future plans involve becoming a site foreman and working at our new projects, such as Malomir."

**Aleksandr Bashev**  
Geologist, Regis



## Education and training

The Group has become one of the largest employers in the Amur region with the majority of its workforce living and working in the area. As the Group has expanded, it has developed the need for a larger skilled workforce of mining staff, engineers and laboratory workers. In order to ensure that the next generation of staff is educated to the highest quality, the Group has committed itself to a long-term programme of investing in a range of educational projects.

The Group recognises that key to its success is a highly-qualified workforce of skilled labourers, engineers, technicians and middle-managers, as well as key staff at project level. This has led the Group to develop a broad educational policy, which in turn has ensured that employees are able to reach their full potential, and has improved the prospects and quality of life for many people, also benefiting the Amur region as a whole. The Group's education policy involves supporting nurseries and primary and secondary schools throughout the Amur region, as well as offering grants for promising high school pupils who are entering higher education. The Group believes that this policy offers children an opportunity to obtain the best possible start in life helping to advance their future professional development and success either within or outside Petropavlovsk.

In addition, the Group offers internships and work placements to local students. The Company supports over 90 employees in undertaking degree courses at universities throughout Russia, whilst hosting regular internal technical conferences to exchange experience and spread best practice.

In 2007, Petropavlovsk led an initiative to establish a course in analytical chemistry for students studying chemistry in their final year at the university in Blagoveschensk. Specialists from the Group's laboratory complex worked with university professors to develop a course programme that includes theoretical and practical tutorials. Upon completion of the course, graduates are given the opportunity of employment within the Group.

In 2008, the Group also established the Pokrovskiy Mining College, located in the village of Zeya, close to the Pokrovskiy operations. The College now provides training in 42 technical disciplines for approximately 150 students each year and encourages staff to improve their academic qualifications and level of professional recognition through the provision of seminars, conferences and training schemes.



## Unions/wages

Since 2003, an independent trade union has represented workers' interests within the Group. Company management undertakes regular consultation sessions to ensure that there is a mutually beneficial and clear line of dialogue on a wide range of issues between the Company and its workers. The union also co-operates with Company management to participate in the creation of a fair and effective labour policy. This approach helps the Company to develop a flexible and fair programme of support for each employee.

As a major employer in the Amur region, the Group is aware of its responsibility to maximise the economic benefits of its operations to the regions in which it operates without causing disruption to local labour markets. The Group seeks to align wage levels to the regional average and utilises local businesses in providing support services to its operations, and in turn broadening the local economic benefits of its activities.

## Social support

The Group seeks to recruit staff from nearby areas but due to the remote location of many of its projects, large numbers of the Group's workforce come from further afield and stay on-site, for a typical 15-day shift. For the next 15-day period, the employees are given leave to return home, enabling them to combine a job at the mine as well as fulfil their responsibilities at home. This work pattern also ensures that the mine is able to be in production 24/7, 365 days of the year.

**Above**  
Class at Pokrovskiy Mining College.

The Group aims to provide employees with a comfortable standard of living at its mining sites. For example, the Group has provided canteens and recreational and sports facilities at the Pokrovskiy and Pioneer mines. In addition, there are a fully-equipped medical centres at each mining site together with full-time medical staff. The Group also offers off-site housing to staff and their families who have worked for the Company for over five years.

## Communications

Since 2006, the Company has circulated a free monthly newsletter to its employees to encourage interest in the general development of the Group. It communicates a combination of corporate and operational news, general updates, interviews with management and members of staff, as well as information across the different areas in which the Group operates. Workers are encouraged to submit ideas and suggestions to management and suggestion boxes are located in key work places. Workers can discuss issues and concerns with their supervisors and managers, and can also talk confidentially to the Group's Welfare Officer.

As a large and geographically dispersed organisation, effective internal communication is critical to the Group's efforts to foster a common culture and to ensure that best practice is shared between different operations.

The Group undertakes a range of internal conferences each year for specific disciplines to enable colleagues to exchange experiences and to learn from one another.

## Going forward

As the Group becomes larger it is important that a new generation of leaders and managers are developed in order to manage the increased diversity and complexity of current operations. The Group believes that its educational policy is tailored to developing the next generation of skilled labourers, engineers, technicians and middle-managers, as well as key staff at operational levels. The Group aims to continue to strive to be an employer of choice, offering what it deems to be high-quality on-site accommodation, good wages and a good social support structure.



# ONGOING DIALOGUE WITH OUR COMMUNITIES

As a leading regional employer, the Group is committed to developing long-term and positive relationships with the communities within which it operates. All operations involve an ongoing and active dialogue with local people and regulatory authorities, using the Group's standard policies and procedures.



## **The Evenk people**

The Evenk people are an indigenous population which inhabit a large territory of north-eastern Russia, including the Amur region in which the Group operates. The Group is working to develop a positive relationship with the Evenk people living locally to the Kuranakh iron ore project.





Community relations activities are focused around the major operational and development projects of the Group throughout the Amur region and EAO.

The Group undertakes an active programme of community sponsorship in three key areas:

- Education;
- Culture and sport; and
- Community healthcare

Requests for financial support or other assistance are regularly received from local residents and organisations. At present, these requests are dealt with on a case-by-case basis, but the Group is currently establishing a Group-wide community investment fund, which will proactively identify and support deserving causes and initiatives.

### Community dialogue

The Group undertakes active community dialogue as part of the project development process for new projects. A Stakeholder Engagement Plan to meet IFC guidelines has been prepared for the Malomir gold project, and similar plans have been developed and implemented previously for the Group's iron ore projects.

During the development phase for a new project, extensive dialogue is undertaken with local communities and local administrative bodies. This goes beyond formal regulatory requirements and projects develop regular and ongoing dialogue with their host communities. Very often this is supported by the purchase of local goods and services and the employment of local workers. This approach ensures that there are multiple channels, both formal and informal, for dialogue with local communities.

#### Above

A festival in Blagoveschensk, the capital of the Amur region, sponsored by the Group's Pokrovskiy mine.

### Giving back to local communities

The Group has provided charitable donations to schools, hospitals and sports and recreational facilities and programmes in regions close to its operations. In 2009 the Group set aside 4 million roubles for spending on educational initiatives, 6 million roubles for spending on healthcare and a further 6 million roubles for spending on sports and cultural programmes and facilities in the region.

Petropavlovsk has purchased medical equipment for a number of local hospitals and medical centres, including a children's hospital in Blagoveschensk. The Group has sponsored three doctors from regional clinical hospitals to attend courses in St. Petersburg.

The Group has provided local schools and nurseries with computers and other equipment. For example, the Group provided 12 day-care nurseries in the Magadachi area of the Amur Region with televisions, radios, washing machines, refrigerators and cooking appliances. It also provided a nursery in Olekma (close to the Kuranakh mine) with televisions, toys and sports equipment. A school in the Tindinskiy area of the Amur was equipped with an IT centre thanks to funds provided by the Group. The Group also assisted in the construction of a school in the village of Tinda.

Petropavlovsk supports a number of sports clubs and cultural programmes in the Amur region and EAO. The Group sponsored the International Festival of Jewish Culture in the EAO and has been the official sponsor of the annual Amur cinema festival since 2005. During 2007 a subsidiary of the Group sponsored a local swimming team to compete in an international swimming competition in London.

### Promoting Russian culture

Petropavlovsk sponsors a range of cultural activities in the UK that are aimed at promoting Russian culture and supporting the Russian community abroad. In 2008 and 2009 Petropavlovsk sponsored Russia's Victory Day celebrations which were attended by Russian war veterans. The Group has also sponsored Russian film festivals, art exhibitions and plays in the UK. In February 2010 the Group was the proud sponsor of a free family-orientated festival in London aimed at promoting the Russian springtime festival of Maslenitsa.

### Contributing the region's economy

The Group is a major employer in the Amur region and a major taxpayer. The Group's average number of employees in 2009 was 7,766, with the majority based in the Amur region at the Group's mines, laboratories and development projects.

The Group has several infrastructure projects in the Amur region and EAO which it is collaborating on with the Russian authorities. These include:

- The creation of a cross-border railway bridge in the EAO which will connect the Chinese and Russian railways, significantly reducing the distance between the iron ore projects and their market in China; and
- The design and construction of a 148km branch rail from Shimanovskaya to the Garinskoye deposit, which will facilitate the transportation of future iron ore production from the Garinskoye deposit to the K&S plant for final processing.

The Group believes that once these projects are realised, they will facilitate other trade, contributing to the region's overall wealth.

The Group works closely with administrative authorities at a local, regional and federal level to ensure that its operations are designed, built and operated to meet regulatory requirements and to fit into planning and development decisions. The Group works closely with all levels of government on a wide range of issues from cross-border bridges into China to local road construction.

### Going forward

The Group anticipates that new employment opportunities will be created as its new gold and iron ore projects come on-stream in the coming years. However, the Group realises that this may in present new challenges as the impact of these projects on the local communities will have to be monitored and assessed closely.

# CONTINUOUS PROGRESS WITHIN HEALTH AND SAFETY

Petropavlovsk recognises that it has an obligation to its employees to ensure a safe working environment. All of the Group's operating companies are required to have in place health and safety management systems to meet regulatory requirements. The Group is now seeking to integrate Russian compliance-based systems with international best practice.

## Health and safety

Following the merger of Petropavlovsk with Aricom plc in April 2009, health & safety departments across the Group have been reorganised to operate in an integrated manner across the gold and iron ore divisions.

## Working safely

The Group operates in line with Russian regulations and is introducing management systems and risk-based approaches to manage health and safety and ensure effective implementation. In 2009, both Pokrovskiy and Pioneer independently implemented externally verified health and safety management systems in accordance with ISO Standard OHSAS 18001.

## Safety on-and-off mine

Monitoring of incidents and accidents was carried out throughout the 13 million man-hours worked by the Group's employees in 2009. The Group has ensured that the recording of accidents and the investigation of the causes meets Russian requirements, and international standards. During 2009, there were 37 injuries across the Group's operations and one fatality. The Group considers this unacceptable and is striving to improve.

The Group has undertaken in-depth accident investigations and is making necessary improvements to health and safety.

All new employees attend a general health and safety induction, tailored to their role at the Company and general procedures for working in the mine. Thereafter, workers are continuously monitored and trained by workplace supervisors. Such ongoing monitoring and risk assessment is an important part of the identification and management of health and safety risks at Group operations. Employees are given further training following accidents and incidents; these are followed up by internal health and safety managers with the aim of reducing the likelihood of similar accidents occurring in the future.

## Supporting workers' health

The Group strives to provide a healthy and comfortable working environment for its staff. The Group encourages physical activity and provides sports facilities for staff use at its operating mines.

The Group also seeks to minimise the incidence of occupational and contagious diseases through effective medical support and treatment. During 2009, no time was lost due to occupational disease.

All exploration and production operations work on a 'zero alcohol tolerance' policy. Through a system of testing at the beginning and end of each working shift, the Group seeks to ensure that there is no possibility of any employee operating machinery whilst under the influence of alcohol or drugs.

Building a "safety culture" is an ongoing challenge. During 2009, health and safety activities focused on ensuring workers complied with the Group's existing policy to wear Personal Protective Equipment (PPE), such as safety clothing, safety footwear and hearing protectors. The General Directors of our largest projects reissued written instructions for all employees to use appropriate PPE at all times.

## Implementation of OHSAS 18001

As part of the process of aligning operating procedures with international best practice, operations at Pokrovskiy and Pioneer were certified to the international health and safety management system OHSAS 18001 in February 2009. The certification audit was undertaken by Moody International.

As a large and geographically diverse Group, with operations spanning different time zones, internal communication and coordination is an ongoing challenge in all areas of the business. The Group is addressing this by holding annual communications seminars to promote the sharing of information and experiences across all departments. In addition, the Group has undertaken EHS conferences to bring together key staff, allowing them to share experiences and discuss best practices.

## Health and safety management

Health and safety is managed at an operational level, with support provided by the Group's health and safety department and HSE Committee to ensure consistent compliance with Russian regulations, and alignment with international best practice.

**Below**  
Workers at Kuranakh.

The Group's EHS departments conduct monthly health and safety audits of all our projects whilst Group auditors visit each site at least annually. Each monthly inspection is performed by a committee consisting of managers and specialists and is chaired by the Chief Engineer of the site, as well as occasionally including state authorities' representatives.

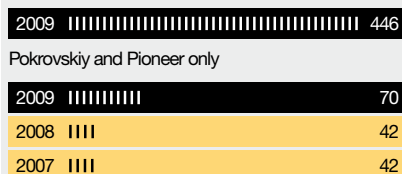
All staff receive annual health and safety 'refresher' training courses to update them on the latest health and safety techniques and procedures being implemented by the Group.

An internal EHS audit team evaluates all operations on a regular basis, helping to spread good practice and increase awareness of the latest Group procedures.

Federal authorities visit the Group's operations three times a year to inspect the explosives stores and industrial facilities to verify the Group's health and safety procedures and documentation.

Performance data for 2009 was collected from both the gold and iron ore divisions for the first time. It is understood that the jump in safety rule violations recorded in 2009 is most likely due to improved internal auditing and we will monitor performance in reducing safety rule violations in the future.

**Violation of safety rules  
(based on internal inspections)**  
All operations



3.80

Lost time injury frequency rate (2009 – across all Group operations)

0

Safety Prosecutions  
(2009 – all operations)

The Group will continue to proactively focus on ensuring full compliance with Russian regulatory requirements whilst implementing revised and improved management systems across Group operations. This will be supported by ongoing training for employees and supervisors.

Separately, the Federal authorities have themselves initiated a new policy drive to align Russian safety standards with international best practice.

To facilitate the integration of the Russian health and safety system and international risk-based approaches, a senior full-time Executive Committee member based in Amur was appointed in 2009 to coordinate and drive forward the implementation of these new health and safety management systems.



# MINIMISING LONG-TERM IMPACTS

Petropavlovsk manages the environmental impacts of its operations in accordance with Russian regulatory requirements and is seeking to align practices with international best practice.

The Group's environmental monitoring department ensures that the Group's operations are compliant with Russian legislation regulating discharges to air, water and soil and tailings and waste management. The Group is seeking to go beyond compliance and align environmental monitoring with international best practice.

## Environmental and Social Impact Assessment

All of the Group's projects are subject to rigorous permitting requirements by the Russian authorities. Russian regulation requires a report assessing the impact that the mine will have on the environment (an 'OVOS' report) to be drawn up for each mining project. Mining operations are also subject to rigorous ongoing environmental monitoring.

As part of the alignment of Group activities to reflect international best practice, current and planned OVOS assessments will be combined with an Environmental and Social Impact Assessment ('ESIA') to integrate risk-based approaches to environmental management. This will enable Group operations to minimise risks by going beyond compliance where necessary. It is believed that this approach will also help in planning the closure and decommissioning of facilities, once mines have reached their end of life. Currently an ESIA to meet international requirements is being undertaken for the Malomir gold project, alongside the OVOS.

## Biodiversity impacts

The Group's mining operations are located in remote areas in the Amur region, the Russian Far East. The nearest settlement to the Pioneer and Pokrovskiy mines is Tygda, located c.14km from Pokrovskiy. While the local environment is relatively pristine, there is limited flora and fauna biodiversity and there are no protected areas in the vicinity of the mines.

The Group's K&S iron-ore project is located in the EAO, adjacent to the Amur region. There is a nature reserve c.12km from the project. The Group has undertaken environmental assessments to ascertain whether mining at K&S will have a negative impact on the reserve. These assessments have indicated that operations will have no significant impact. The Group will ensure continued monitoring of this situation when K&S is commissioned in 2013.

## Monitoring emissions, water and air quality and waste management

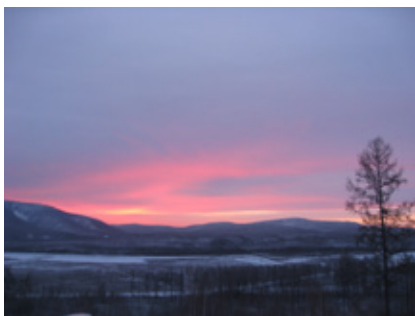
Emissions from Group's operations are managed in strict compliance with Russian regulatory requirements. Monitoring data at Pokrovskiy and Pioneer has identified no air or water quality impacts. Industrial waste output is monitored and controlled in line with Russian regulations.

Water discharge	
All operations	
2009	67,142,765m³
Pokrovskiy and Pioneer only	
2009	0m³
2008	0m³
2007	110,612m³

Water consumption per kg AU	
Petropavlovsk	
2009	80,050 l/kg Au
Industry average	
2009	691,000 l/kg Au

Serious environmental incidents –	
All operations	
2009	0
Pokrovskiy and Pioneer only	
2009	0
2008	0
2007	0





Near the Kuranakh titanomagnetite-ilmenite deposit, North-West Amur region, Russian Far East.

## Carbon emissions

Petropavlovsk's operations utilise electricity supplied from hydropower. As a result, the only significant emissions from operations are from haul trucks and other vehicles. Consequently, carbon emissions per ounce of gold or tonne of iron ore are significantly lower than at many comparable mining operations.

### Greenhouse gas emissions per kg AU

Petropavlovsk

2009 5.6t CO<sub>2</sub>e/kg AU

Industry average

2009 11.5t CO<sub>2</sub>e/kg AU

### Energy consumption per kg AU

Petropavlovsk

2009 9.6GJ/kg AU

Industry average

2009 143GJ/kg AU

## Waste management

All mining operations generate significant volumes of waste from waste rock and tailings and general industrial and domestic waste. Due to the remote location of the Group's mining operations, waste is managed, recycled or disposed of on-site, in accordance with licensing requirements.

The Group's operations are typically located in forested areas and all felled commercially viable timber is either harvested by the local forestry management authority or used on-site for construction purposes.

There is an ongoing rehabilitation programme at all operating mines to rehabilitate completed waste rock stockpiles in accordance with regulatory and permit requirements. Outline closure plans have been prepared for operating mines as part of the initial licensing process and these will be updated as mines approach the end of their operating lives.

### Total land area used

All operations

2009 10,031ha

Pokrovskiy and Pioneer only

2009 6,870ha

2008 6,880ha

2007 1,137ha

### Land rehabilitated during the reporting period

All operations

2009 362ha

Pokrovskiy and Pioneer only

2009 0ha

2008 42ha

2007 27ha

### Total land handed back to the municipality and/or forest agencies

All operations

2009 402ha

Pokrovskiy and Pioneer only

2009 0ha

2008 744ha

2007 0ha

## Cyanide

While iron ore concentration relies on physical and magnetic processes, gold processing requires the use of cyanide in extraction. During 2009, an independent cyanide audit of Pokrovskiy and Pioneer was conducted which found existing procedures broadly in compliance with the requirements of the International Cyanide Management Code ('ICMC'). The Group is seeking to bring outstanding procedures into compliance with the ICMC in the near future.

### Cyanide consumption per kg AU

Petropavlovsk

2009 147kg CN/kg AU

Industry average

2009 141kg CN/kg AU

## Going forward

The ongoing re-alignment of the Group's EHS procedures to reflect international best practice will ensure risk-based environmental management practices supplement existing compliance based approaches.

The Group recognises that as it brings more projects into production it will face more environmental challenges. The Kuranakh titanomagnetite and ilmenite deposits and the Malomir gold project are due to be commissioned in 2009 and the K&S iron ore project in 2013. Malomir and K&S are located in challenging local environments with complex geochemistry. The Group recognises that water management at these sites in particular will be a key issue.

# CORPORATE RESPONSIBILITY MANAGEMENT AND IMPLEMENTATION

The Group has an organisational structure in place to ensure that all aspects of its operations, including the Group's community relations and health, safety and environmental performance, are managed efficiently and effectively.

## Corporate values

The Group is committed to operating in compliance with Russian regulations and aligning itself with international best practices to protect its workers, the surrounding environment and the communities within which it operates. In planning its approach to business, the Group recognises that it has duties to shareholders and responsibilities to a wider group of stakeholders.

The Group's key values in relation to community engagement, environmental protection and health and safety performance are:

- To strive to minimise the negative impacts of its operations on the local communities or on the surrounding environment;
- To guarantee a good standard of living for all Group employees;
- To support local educational institutions in order to meet the Group's future human resource requirements;
- To support cultural and sporting activities and charitable causes in the regions in which it operates;
- To ensure that work-related incidents, illnesses and injuries are preventable; and
- To identify foreseeable hazards and environmental impacts, assess the associated risk and, where reasonably practical to ensure that these are eliminated or minimised.

## Management structure

The Group's organisational structure ensures that environmental, health and safety performance is monitored at all management levels, from staff at the Group's operations through to the Board of Directors.

### The Board of Directors

The Board of Directors consists of three Executive Directors and six Non-Executive Directors. The Board is responsible for the determination and monitoring of the Company's strategic aims, budgets, major items of capital expenditure and senior appointments, the direction and control of the Company and the management of the capital structure. The Board ensures that the necessary financial and human resources are, and will continue to be, in place to enable the Company to meet its objectives. The Board works closely with the operational management to achieve the Company's objectives.

### HSE Committee

An Environmental, Health and Safety Committee ('EHS Committee') was established at Board level to monitor, review and make appropriate recommendations on industry best practice, the most recent requirements of the London market and the state of health, safety, environment, social and community relations issues within the Group.

The HSE Committee submits regular reports on operational EHS performance are submitted to the Board. Internal EHS audits, independent assurance audits and reviews are undertaken on a frequent

basis. More information regarding the Group's Corporate Governance and the committees established at Board level can be found on page 62 to 69 of the 2009 Annual Report and Accounts.

### The Executive Committee

The Board of Directors is supported by an Executive Committee, appointed by the Board, consisting of senior management who are based at the Group's Head Office in London, at its management office in Moscow and its regional offices in the Russian Far East. The Executive Committee has the authority to approve transactions considered to be in the ordinary course of business and to approve expenditure and financial commitments in accordance with limits previously agreed by the Board. The Executive Committee has a duty to further the strategy, business objectives and targets established by the Board and to manage the Company's operations, financial, administration, health and safety and environmental performance. The Executive Committee is also responsible for maintaining relationships with shareholders and other key stakeholders, for investigating merger and acquisition opportunities and for reviewing internal control and risk management.

During 2009, the Group appointed a member of the Executive Committee to be responsible for the coordination and supervision of EHS developments at Group operations to ensure greater scrutiny of EHS practices across all operations. These findings are also reported to the HSE Committee.

### Key operational management

The Group has a strong and experienced operational team on the ground, many of whom have been with the Group since inception. This team is responsible for overseeing the day-to-day running of each of the Group's key departments, operations and subsidiaries. EHS monitoring is conducted at project level and supported by the Group's Health and Safety Department based and Environmental and Community Relations Department.

EHS performance data is reported within the Group on a quarterly basis internally, based on the system of Key Performance Indicators ('KPIs') that has been developed and agreed by the HSE Committee and environmental staff at project level. The HSE Committee has the authority to call on key operational management in the event of unexpected or unusual KPIs.

### Approach to governance

The Company is committed to high standards of corporate governance. The UK Listing Authority requires companies incorporated in the United Kingdom and listed on the Official List to disclose how they have applied the Main Principles set out in Section 1 of The Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the 'Combined Code'). Details of how the Company has applied the Main Principles set out in Section 1 of The Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the 'Combined Code') are set out in the Corporate Governance Report on pages 62 to 69 of the 2009 Annual Report and Accounts. The Combined Code is publicly available on the website of the Financial Reporting Council, [www.frc.org.uk](http://www.frc.org.uk).

The Board has also adopted terms of reference for its Committees, available on the Company's website at [www.petrovsk.net](http://www.petrovsk.net) and the operation of these committees is within the scope of these terms of reference.



### Corporate disclosure and communication

The Group is committed to ongoing dialogue with its shareholders, relevant regulatory authorities and other stakeholders.

Existing and prospective shareholders and other members of the wider investment community are key target audiences for the Group's corporate reports, including this Sustainability Report. Readership of this report includes Socially Responsible Investment ('SRI') analysts and investors. In addition to this primary target audience, the Group's Sustainability Report is written alongside the Group's 2009 Annual Report and Accounts, to provide a broad range of stakeholders with information about the Group's economic, environmental and social policies, performance and standards. This broader range of stakeholders includes governments, existing and prospective employees and their families, development organisations and Non-Governmental Organisations ('NGOs'), business partners, media, unions, local communities and others.

### Left

Case study to be suodo ea feuis acilla faci te feugiamet vel erosie folorem dunt vel eugait nos amcommy nissi te vent acilla feu fac enit eumsan volore dunt lore feuis nulputpatue magnisi bla feumsandre diam dignim init lortis euod tat atue delessequat, tat wis num am esequat alis.

### Going forward

The Group plans to rapidly expand in the coming years with the commissioning of the Malomir and Albyn gold mines and the Kuranakh titanomagnetite-ilmenite deposit and the K&S iron ore deposit. The Group anticipates that its internally monitoring and reporting systems will also need to be developed in line with this expansion.

# ASSURANCE REVIEW

The Petropavlovsk PLC (the Group) Sustainability Report 2009 (the Report) which includes both the printed Report and additional online content has been prepared by the management of the Group, who are responsible for the collection of information within it. Our responsibility, in accordance with Group management's instructions, is to carry out a limited assurance review on the Report.

We do not therefore accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance that any such third party may place on the Report is entirely at its own risk.

## How were our conclusions formed?

Our assurance engagement has been undertaken in accordance with the AA1000AS Standards, and AA1000 Assurance Principles have been used as criteria against which to evaluate the Report.

In order to form our conclusions, we undertook the steps outlined below:

- Interviews with a selection of Group executives and senior managers to understand the current status of sustainability activities and progress made during the reporting period.
- Visits to the Group's operations in Moscow and the Amur region of the Russian Federation to review the systems and processes in place for managing and reporting on sustainability activities at asset level and to review evidence in support of claims made in the Report regarding the Group's sustainability performance.
- Review of selected corporate-level documents to assess management awareness of performance against sustainability objectives and test the coverage of the Report.
- Review of documents from stakeholder engagement activities.

- Review of social investment, health and employment, safety, security and environmental (HSSE) data and processes to assess whether they have been collected and reported appropriately at corporate level and at the assets visited.
- Test the consistency of the claims made in the Report regarding the Group's sustainability performance against the evidence obtained through our work.

## What level of assurance is provided?

Our assurance review procedures have been designed to provide a limited level of assurance on which to base our conclusions. The extent of assurance review procedures performed is less than that of a financial assurance engagement and therefore a lower level of assurance is provided.

## What are the limitations of the review?

The scope of our work was limited to corporate-level activities and visits to the Group's principal operation and development assets in the Amur region of the Russian Federation. We did not attend any stakeholder engagement activities. Therefore, our conclusions on Materiality and Responsiveness are based on our discussions with Group management, our review of selected media and the review of documents provided to us by the Group.

## Our conclusions

Based on the scope of our review our conclusions are outlined below:

### Materiality

- We are not aware of any material aspects concerning the Group's sustainability activities that have been excluded from the Report.

### Completeness

- We are not aware of any material issues excluded from the Group's judgements on the content of the Report.
- We are not aware of any misstatements in the assertions made by the Group management in the Report regarding sustainability activities.

## HSSE, social investment and employee data

- We are not aware of any reporting units that have been excluded from the Group-wide data relating to the topics above, excepted where stated.
- Nothing has come to our attention that causes us to believe that the data relating to the above topics has not been collated properly from information reported at operations level.
- We are not aware of any errors that would materially affect the data as presented in the Report.

## Responsiveness

- We are not aware of any additional issues of stakeholder interest that are not currently included in the Report's scope and content.

## Global Reporting Initiative

*Does the Report meet the requirements of the C+ application level of the Global Reporting Initiative (GRI) G3 Guidelines?*

Based on our review, including consideration of the printed and online Report and elements of the Petropavlovsk PLC Annual Report and Accounts, nothing has come to our attention that causes us to believe that the Group management's assertion that their sustainability reporting meets the requirements of the C+ application level of the Guidelines, is not fairly stated.

## Observations and areas for improvement

Our observations and areas for improvement will be raised in a report to the Group's management. Our observations do not affect our conclusions on the Report set out above.

## Our independence

This is the third year that Citrus Partners LLP has provided advisory services in relation to the Group's sustainability reporting. We note that we are a consultant to the Group on sustainability matters and that we have assisted in the preparation of the Report. The collection of all data within the Report is the sole responsibility of the Group and we have not been involved in the collection of such data. Our assurance review has been conducted on an independent basis.

**Citrus Partners LLP**



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**PETROPAVLOVSK**