



Sustaining Future Performance

Sustainability Report 2010



PETROPAVLOVSK

Company at a Glance

Petropavlovsk is one of the leading Russian gold producers with a strong portfolio of assets and a proven track record of developing projects from the early exploration “greenfield” stage into successful operations. This key strength of the Group has ensured eight consistent years of growth in gold production, creating value over that period for the Group stakeholders in the Russian Far East and its shareholders worldwide.



506,800oz

506,800oz of gold was produced in 2010, placing the Group among the top three gold producers in Russia.



£2,150m

The Company is listed on the main market of the London Stock Exchange Plc. The Company's market capitalisation as at 31 December 2010 was £2,150 million (US\$3,354 million), placing it in the top quartile of the FTSE 250.



9.1Moz

The Group has 9.1Moz of *Proven* and *Profitable Ore Reserves* and 23.1Moz of total Mineral Resources.



3

The Group operates three hard-rock gold mines which it has developed from early-stage projects into producing mines utilising its in-house expertise.



11,789

The average number of Group employees in 2010 was 11,789. The Group has a long term policy of seeking to employ local people at its operations.



1994

The Company was founded 17 years ago. The professionalism and hard work of the team, many of whom are still with the Group today, has ensured its success.



126

126 students admitted to the Group's Pokrovskiy Mining College in 2010.



US\$2.5m

Group charitable donations in 2010 totalled US\$2.5 million.



Zero

In 2011, the Group had zero material violations across its 135 gold licences, including discharges to air and water over agreed limits.

Petropavlovsk's Assets

All the Group's gold mining operations are located in Russia – one of the world's leading mineral-processing producing countries and one of the richest in terms of its reserves and resources. In addition, Russia possesses a pool of highly-qualified and talented workers and an established culture of mining innovation.

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Amur region

Petropavlovsk operates in a number of regions across Russia but its key mines and development projects are located in the Amur region of the Russian Far East, where it is the leading gold producer. The Amur region is located across an ancient tectonic plate boundary and consequently is one of Russia's major gold-producing and mineral-rich regions. The region covers approximately 361,600km².

1 Pioneer

The Group's primary mine, which produced 230,900oz of gold in 2010. The Group acquired the Pioneer licence when it was a greenfield project in 2001 and commissioned the mine seven years later in 2008. Mining is entirely open-pit and ore is processed using a 5.0Mtpa RIP plant and 0.7Mtpa heap-leaching facility.

2 Pokrovskiy

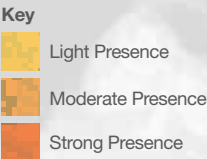
The Group's first gold mine. Acquired as an early-stage asset in 1994, it was developed in-house and commissioned in 1999 and has produced more than 1.6Moz since, with 144,900oz produced in 2010. Mining is entirely open-pit and ore is processed using 1.7Mtpa RIP Plant (90%) and 0.7Mtpa heap-leaching facilities (10%).

3 Malomir

The Group's first mine in its north-east Amur cluster of assets was acquired as an early exploration stage project in 2003 and commissioned in August 2010 on time and on budget. Mining is entirely open-pit and ore is processed using 0.7Mtpa RIP plant, which the Group plans to expand in 2011. Malomir produced 36,400oz of gold in 2010.

4 Albyn

The Group's next major gold mining project. Located in close proximity to Malomir, it is being developed for commissioning in the fourth quarter of 2011.





2010 at a Glance

A transitional year for the Group as Petrodavlovsk continues to evolve into a world-class multi-mine operator

Record total attributable gold production

Full year production* of 506,800oz, up 4% on 2009 production and eighth consecutive year of production growth

Exploration success

Significant increases in JORC Ore Reserves, attributable to successful exploration and new acquisitions completed in 2010

Third major gold mine commissioned

Malomir commissioned on schedule in August 2010, using predominantly in-house expertise

Development success

Work towards commissioning the Albyn gold mine and additional processing facility at Malomir is on schedule

Additional milling line at Pioneer commissioned

Milling line commissioned on schedule in April 2010, increasing plant capacity by c.80% to 5.0Mtpa

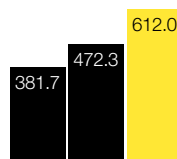
Listing of IRC Limited

Listing of the former Non-Precious Metals Division on the Stock Exchange of Hong Kong Limited raised gross proceeds of approximately US\$240 million

Group Revenue (US\$ million)

612.0

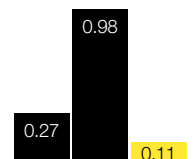
2008 2009 2010



Earnings per Share (US\$)

0.11

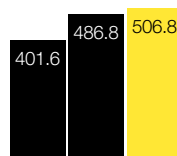
2008 2009 2010



Attributable Production ('000oz)

506.8

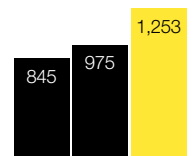
2008 2009 2010



Group Average Gold Price (US\$/oz)

1,253

2008 2009 2010

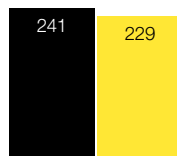


Underlying EBITDA (US\$ million)

Before exceptional items, excluding IRC

229

2009 2010

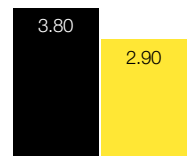


Group Lost Time Injury Frequency Rate

(per million hours worked)

2.90

2009 2010



* Full definition of attributable gold production as stated here and throughout this document may be found on page 75 of the Annual Report 2010.

Chairman's Statement

Peter Hambro



2010 marked a transitional year for the Group; a year of both challenges and achievements as it evolves into a world-class multi-mine operator. During this transitional period, the Group has remained committed to its core sustainability values of acting with honesty, integrity and corporate social responsibility on health, safety and environmental matters.

Operationally, the Group encountered a number of challenges during 2010 which were compounded by factors beyond our control, including delays in the delivery of key machinery and adverse weather conditions. These challenges caused us to produce less gold than we had originally anticipated. Nevertheless, our total attributable gold production for the year amounted to 506,800oz, which was an increase of 4% on 2009 and has continued the year-on-year increase in production we have enjoyed since listing in 2002. This year we were delighted to report that the new processing line at our Pioneer mine was successfully installed and our third hard-rock mine, Malomir, was commissioned on time and on budget. Kuranakh, the titanomagnetite and ilmenite mine operated by our 65.6% subsidiary, IRC Limited, was commissioned during the year. Looking towards 2011, the second milling facility at Malomir remains on schedule for commissioning in the second half of the year and construction work at Albyn is advancing as planned with commissioning expected to take place during the fourth quarter of 2011. The Group's attributable gold production for 2011 is currently estimated to be 600,000oz, excluding these new developments, representing an increase of c.18% over total attributable gold production for 2010.

As the Group moves into these new phases, we recognise the significant opportunity available to make a positive contribution to the sustainability of our operations, whilst continuing our work in partnership with all of our stakeholders. We remain committed to operating in a safe and responsible manner and recognise that our performance in this area underpins our reputation at both a local and national level in Russia, as well as in the wider global investment community. The Group takes compliance with environmental legislation very seriously and we are making good progress in our ongoing efforts to ensure that our projects meet the most exacting of Russian standards and international best practice.

The health and safety of our people is fundamental to the way we manage our business and we continue to eliminate the risks to our employees. It is important that they feel valued and respected and believe they have an opportunity to realise their full potential in a safe and comfortable working environment. To that extent, I am deeply saddened to report that three of our colleagues lost their lives whilst working for us in 2010. These fatalities are unacceptable and must serve to reinforce our efforts to improve safety performance at all of our operations in 2011. I wish to convey my deepest condolences to the friends and families of our lost colleagues.

This year has seen the launch of the Petropavlovsk Foundation for Social Investment, established to coordinate our social investment in the Amur region and ensure maximum benefit. Our charitable donations in 2010 totalled US\$2.5 million, supporting education, health, culture and sport across the region and a number of other worthy causes.

Finally, I would like to thank all of our employees for their continued commitment and hard work in implementing our sustainability strategy and for their contribution to Petropavlovsk's achievements in 2010.

A handwritten signature in black ink, appearing to read 'Peter Hambro', with a long, sweeping horizontal line extending to the right.

Peter Hambro
Chairman

Assurance Statement

Dear Stakeholder,

The Petropavlovsk PLC ("Petropavlovsk", or together with its subsidiaries "the Group") is responsible for the collection of information contained within the Sustainability Report 2010 ("the Report"). Our responsibility, in accordance with instructions from the Group's management, is to undertake a limited assurance review on the Report.

How were our conclusions formed?

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

- ▶ Interviews with a selection of the Group's executives and senior managers to understand the current status of sustainability activities and progress made during the reporting period;
- ▶ Visits to the Group's offices in Moscow and operations in the Amur region 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, employee and health, safety, and environmental ("HSE") data and processes to assess whether they have been collected and reported appropriately at corporate level; and
- ▶ Testing 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 operating 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 the Group's 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 judgments on the content of the Report.
- ▶ We are not aware of any misstatements in the assertions made by the Group's management in the Report regarding sustainability activities.

HSE, 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, except 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

Based on our review, including consideration of the printed and online Report and elements of the Group's Annual Report 2010 and Financial Statements 2010, nothing has come to our attention that causes us to believe that the assertion of the Group's management, that their sustainability reporting meets the requirements of the C+ application level of the Global Reporting Initiative ("GRI") 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 fourth 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 environmental management matters. 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.

Alex Mayhook-Walker

Citrus Partners LLP

Business Strategy

Since its inception in 1994, the Group has been focused on developing greenfield sites into gold mines utilising its in-house exploration, technological, research and development, engineering and construction expertise. This strategy has progressed the Group from a developer of a single deposit into one of the largest gold producers in Russia, bringing value to the Group's shareholders and generating societal wealth in the Russian Far East.

A leading Russian gold miner

Petropavlovsk operates more than 30 projects in ten regions of Russia. This includes three hard-rock gold deposits, which are mined using conventional open-pit methods, together with alluvial operations and a joint venture. Petropavlovsk has an active exploration programme to sustain growth and retain its position as one of the largest gold mining companies in Russia, and one of the largest employers in the Amur region.

The Group is proud of its experienced and strong management team, many of whom have been with the Group for many years and are local to the regions in which the Group operates. The Group offers competitive wages and benefits to ensure it is an employer of choice for local workers. The Group invests in local education programmes and scholarships and has established its own mining college to ensure that the Group is well equipped with the next generation of mining specialists to take the business forward. This in turn has improved the prospects and quality of life for many people and has brought benefits to the Amur region as a whole.

Petropavlovsk is committed to maintaining good relations with local communities. During 2010, the Group collaborated with local government authorities to establish the Petropavlovsk Foundation for Social Investment to consolidate the Group's existing social activity into one investment vehicle.

Since its inception, the Group is proud to report that it has had a good track record of health, safety and environmental performance and compliance and has maintained good community relations. It recognises that this must continue as the business expands in the coming years.

IRC

IRC is the Group's former Non Precious Metals Division. Petropavlovsk has a 65.6% holding stake in IRC Limited, which has been listed on the Stock Exchange of Hong Kong Limited since 21 October 2010. IRC Limited had a market capitalisation as at 31 December 2010 of approximately US\$614 million.

In focus: the gold mining industry

For thousands of years gold has been used as a storage of wealth, a commodity, currency or simply admired for its beauty.

In addition to producing an essential commodity, the gold-mining industry can bring a variety of socio-economic benefits. These include the creation of jobs not only at mining sites but at the industries connected with mining such as laboratories, research centres, engineering institutions and geological modelling departments.

There is often a positive correlation between the demand for gold and risk aversion. Since uncertainty in the financial markets was a key theme throughout much of 2010, it is no surprise that gold prices have retained a strong upward momentum throughout most of the year. In addition to these economic factors, the gold price was also supported by strong jewellery demand and an improving industrial demand versus 2009.

Petropavlovsk's In-House Expertise



Developing Greenfield Sites

Petropavlovsk has systems in place to develop unexplored "greenfield" licence areas into producing mines. All Petropavlovsk's hard-rock gold mines were explored and developed utilising the Group's in-house expertise which covers all stages of mine development from early-stage exploration to commissioning and in turn, production. Petropavlovsk is able to draw on the extensive local knowledge of its geological teams to identify further highly prospective acquisition targets for its portfolio.



Exploration

Exploration work is conducted in-house by the Group's geologists and field data is evaluated and interpreted by the Group's in-house specialists. Petropavlovsk's geological and exploration teams operate through specialist subsidiaries and are led by Nikolai Vlasov, Chief Geologist, CJSC Management Company Petropavlovsk, who has more than 30 years' experience of gold exploration and mining in the Amur Region.



Technological Support

Exploration work is supported by a network of six State-accredited laboratories, which operate in accordance with best international practice and Russian standards to conduct assaying, metallurgical testing and analysis of samples. The Group's laboratories also assay samples from its operating mines for environmental monitoring purposes.



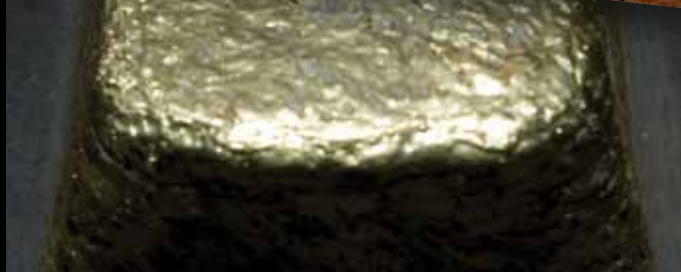
Project Development, Engineering & Construction

Petropavlovsk's engineering expertise covers the preparation of technical and feasibility studies and designing and supervising the construction of industrial facilities. Consultation with local communities was undertaken, together with environmental studies to assess the potential impact of the mine and, if possible, limit this in the project's design.



Mining & Processing

Mining at the Group's three hard-rock, open-pit gold mines is conducted in accordance with a pre-determined mine plan and gold is extracted on-site using cyanide based resin-in-pulp or heap leach technologies. In addition, the Group operates a number of alluvial operations. Environmental monitoring is undertaken to ensure that operations are run in accordance with Russian legislation and are aligned with international best practice.



Gold Production

In 2010, Petropavlovsk's total attributable gold production was 506,800oz, making Petropavlovsk one of the top three gold producers in Russia. Petropavlovsk sells all the gold it produces at a London fixed price excluding sales commission to Russian and Western banks. Petropavlovsk set aside some of the revenue it generates to put towards community projects in the regions in which it operates. Revenue is also set aside for eventual mine closure and land rehabilitation.

Approach to Sustainable Development and Reporting

Underpinning the Group's strategy is its commitment to develop its business in a sustainable manner: to invest in people, education and training, and to adhere to its core values of good governance, honesty, integrity and corporate social responsibility on health, safety and environmental issues. Central to these values is its belief that health, safety and environmental performance and community engagement can be continuously improved.

Managing environmental, health and safety issues

The Group aims to operate in a way that avoids causing harm to its employees, the environment and local communities. The Group recognises that foreseeable hazards and environmental impacts must be identified, the associated risk assessed, and where reasonably practical, eliminated or minimised. The Group's objective is fully compliant with Russian legislation governing health, safety and environmental performance and the Group seeks to go beyond this by implementing standards in accordance with international good practice. These core values are integrated into a formal Sustainability Policy which was approved by the Group's Health, Safety and Environment ("HSE") Committee. Further details on the HSE Committee's activities and scope of work can be found on pages 8 and 9 of this report.

The Group is committed to the continued implementation of international good practice as defined by the International Finance Corporation ("IFC") Performance Standards on Social and Environmental Sustainability.

Approach to reporting

The Company has prepared this Sustainability Report ("the Report") in addition to its Annual Report 2010 and the Financial Statements 2010. The Report covers the Group's financial year ended 31 December 2010 and follows the Group's Sustainability Report covering the period ended 31 December 2009. Since that report was published, the style and content of the Group's sustainability reporting has evolved based on its own reporting strategy and feedback from shareholders and stakeholders, and this is reflected in the Report. This feedback was used in determining which issues or topics were material to the Group for inclusion in the Report. The structure, outline, and content was guided by the HSE Committee in accordance with the Group's Sustainability Policy and its core values.

The Report was produced in line with GRI Guidelines, in accordance with the strategy previously adopted by the Group of gradually aligning its sustainability reporting towards the requirements of the GRI. The GRI is widely known within the mining industry and has been adopted by the International Council of Mining and Metals ("ICMM") as part of its sustainable development framework. The content in this Report was prepared to Level C+ of reporting under the latest version of the GRI Guidelines. The quality of the Report was assured by independent consultants, Citrus Partners LLP.

In this report, the Group has sought to focus on:

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

This report also reflects the performance indicators used internally to measure and monitor performance which are also subject to external audit. The topics addressed by this report relate to the key issues encountered during mine exploration, development, construction and operation. Key performance indicators are set out in this report to illustrate year-on-year progress and a full data sheet of key performance indicators is provided on the Group's website, www.petropavlovsk.net.

The content of this Report focuses on the Group's key gold mining operations: the Pokrovskiy, Pioneer, and Malomir mines. Some of the Group's exploration and development assets, alluvial operations, technical support subsidiaries and assets held by IRC Limited are addressed in the Report but are not the key focus of the Report. Further information on the Group's principal activities is provided in the Annual Report 2010 and the Financial Statements 2010. The Report is designed to be read in conjunction with these reports.

Key principles of the Group's Sustainability Policy

- ▶ We aim to operate in a manner that avoids causing harm to employees, the environment and local communities;
- ▶ Foreseeable hazards and environmental impacts must be identified, the associated risk assessed and, where reasonably practical, eliminated or minimised; and
- ▶ Health, safety and environmental performance and community engagement must be continually improved.

HSE audit

During the first quarter of 2011, a HSE audit of the Group's operations was undertaken by an independent environmental specialist at Wardell Armstrong International ("WAI"). A summary of the key environmental findings and recommendations was prepared for the HSE Committee.

WAI noted in its summary that environmental permits for all operational mines remain valid and good relations have been maintained between mine management, Federal and Amur region authorities. It was noted that on-going permitting is progressing well for non-operational assets. It was also noted that community acceptance of all the Group's projects is good and the Group has good relations with local indigenous groups.

Sustainability Policy and Action Plan

The HSE Committee reviews the Group's Sustainability Policy annually. The Sustainability Policy details the Group's sustainability commitments and goals in the coming years. The Sustainability Policy is consolidated into a formal Action Plan. The Action Plan was last updated in January 2011 and was approved by the HSE Committee and agreed with management at the Group's operations.

The objective of the Group's Action Plan is to outline the steps the Group needs to take in order to continue aligning its operations with international best practice, while simultaneously ensuring that all Russian regulatory requirements are met. Petrovsk has adopted a phased approach to ensure that disruption is minimised as new approaches and procedures are introduced at its operations.

Operation	2010	2011	2012	2013
Corporate	Development and implementation of the Petrovsk Foundation for Social Investment Sustainability Report produced to GRI Guidelines	Development of Corporate HSE and Community Relations management systems Sustainability Report produced to GRI Guidelines Review of mine closure planning procedures	Development of Corporate HSE and Community Relations management systems Sustainability Report produced to GRI Standard Guidelines	Development of Corporate HSE and Community Relations management systems Sustainability Report produced to GRI Guidelines
Pokrovskiy/ Pioneer	Implement findings of gap analysis audit against the International Cyanide Management Code ("ICMC")	Implementation of ICMC requirements (not externally certified)	Certification to ICMC Development of mine closure plans	
Malomir	Environmental & Social Impact Assessment ("ESIA") prepared in parallel to permitting to identify and manage any risks not addressed by permitting	Implementation of Environmental Management System ("EMS") ESIA updated to include tailings dam safety assessment	Certification to ICMC Development of mine closure plans	
Albyn	Environmental baseline studies and initial consultations undertaken	ESIA prepared in parallel to permitting	Implementation of EMS	Certification to ICMC Development of mine closure plans

Corporate Governance

The Group has an organisational structure in place to ensure that all aspects of its operations, including social and community relations and health, safety and environmental performance, are monitored at all management levels and managed efficiently and effectively.

The Board of Directors

The Board of Directors sets and reviews the Group's Sustainability Policy. The Board currently consists of a Chairman, five Executive Directors, and, as at the date of the AGM, five Non-Executive Directors following the announcement of Peter Hill-Wood to stand down.

The roles of the Chairman and Chief Executive Officer are separate and there is a clear division of responsibilities between the two, which is set out in writing and has been approved by the Board. The biographies for the Board members can be found in the accompanying 2010 Annual Report. Details of the process for the appointment and re-election of Directors can be found in the accompanying Financial Statements 2010.

Corporate Governance

The Board is responsible for ensuring an appropriate level of corporate governance and intends, where possible, to comply with the UK Corporate Governance Code which applies to the Company from 1 January 2011. Further details of the Group's compliance and approach to Corporate Governance can be found in the Corporate Governance Statement in the accompanying Financial Statements 2010, which has been prepared in accordance with Rule 7.2 of the FSA's Disclosure and Transparency Rules and forms part of this Report.

Conflicts of interest

Under the Companies Act 2006, Directors are subject to a statutory duty to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or may possibly conflict, with the interests of the Company. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts of interest of directors where the Articles of Association contain a provision to that effect. The Company's Articles of Association, which are available on the Company's website (www.petropavlovsk.net), afford the Directors such powers. In addition, the Directors will be able to impose limits or restrictions when giving authorisations, if they think it is appropriate to

do so. Directors of the Company who have an interest in matters under discussion at Board meetings are required to declare any such interests and, subject to certain exceptions, to abstain from voting on the relevant matters. Any material-related party transactions will be approved by a committee of the Board consisting solely of independent Directors. The Directors have reviewed the interests declared by Directors which could conflict with those of the Company, and are satisfied that the Board's power to authorise potential conflicts is operating effectively.

Remuneration and the Remuneration Committee

While the Board and its appointed Remuneration Committee, which consists solely of Non-Executive Directors, are ultimately responsible for Directors' remuneration, the Remuneration Committee is responsible for reviewing the performance and determining the remuneration and conditions of employment of Executive Directors and senior executives. The scale and structure of remuneration is based on the Directors' service agreements, paying due regard to the interests of shareholders and the performance of the Group. Performance-related elements of remuneration form a significant proportion of the total remuneration package of Executive Directors. The remuneration policy is designed to attract, motivate and retain Directors with the necessary skills and experience to manage the Group's operations. Directors abstain from decisions determining their own remuneration and are not present at meetings when their own remuneration is discussed. The Directors' Remuneration Report on pages 19 to 30 of the accompanying Financial Statements 2010 outlines the remuneration policy and contains full details of Directors' emoluments.

HSE Committee

An HSE Committee was established to assist the Board in obtaining assurance that appropriate systems are in place to deal with the management of health, safety and community relations risks. The HSE Committee currently consists of three Non-Executive Directors and,

Reporting structure



since 9 February 2011, an additional two Executive Directors. These are the Group's Strategic Director and Technical Director. The latter is based full-time in the Amur region, close to the Group's key operations. The HSE Committee provides the full Board with verbal updates on a regular basis and all minutes from HSE Committee meetings are circulated to all Board members. All Directors are encouraged to make further enquiries, as they feel appropriate, of the Executive Directors or management. HSE performance data and details of any accidents are submitted to the HSE Committee. The committee has the authority to invite key members of operational management to meetings to discuss the performance of the Group or its subsidiaries, should it feel that this is out of the ordinary. During 2010, the HSE Committee met four times and operated in accordance with its Terms of Reference, which are available on the Company's website www.petropavlovsk.net.

The Executive Committee

The Board has appointed an Executive Committee, consisting of six Executive Directors and four members of senior management, and has delegated to this committee the authority to make decisions relating to the day-to-day management of the Company, to further the strategy, business objectives and targets established by the Board and to manage the Company's operations, financial, administration and HSE 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. HSE performance data across the Group's projects is submitted to the Executive Committee for review ahead of each meeting. The Executive Committee formally met eleven times during 2010.

Operational management

The Group is proud of its experienced and strong management team, many of whom have been with the Group since its inception and have been instrumental in building the Group from its initial beginnings into the multi-mine Russian gold producer that it is today. The Board works closely with operational management to achieve the Group's objectives. Key operational management sit on the Group's Executive Committee.

Performance evaluation

The Board follows a formal annual evaluation process by Executive and Non-Executive Directors. The Remuneration Committee, appointed by the Board, is responsible for the performance review of each Executive Director and the independent Non-Executive Directors, led by the Senior Independent Non-Executive Director, are responsible for the performance evaluation of the Chairman.

The Board has adopted a formal performance evaluation procedure for the Board as a whole and for the committees, including the HSE Committee, whereby each Director completes a confidential questionnaire on the Board's structure, dynamics and performance.

Responses are collated by the Company Secretary and reviewed by the Senior Independent Non-Executive Director, prior to review by the Board. The Chairman has overall responsibility for ensuring that action points from the evaluation process are implemented. For 2010, the usual internal evaluation process was supplemented with an independent assessment carried out by an external assessor, Abbeywell Associates Limited. A detailed report was submitted to the Senior Independent Non-Executive Director and the Board in early March 2011 and concluded that the Board and its committees continue to operate effectively and that each Director is contributing effectively and demonstrates commitment to his or her role. While being satisfied with its overall performance, the Board is developing action plans in respect of certain areas identified for improvement for example, by considering opportunities to broaden the Group's diversity given its Russian mining focus and by applying more transparent procedures for the selection, induction and training of new directors.

The Chairman routinely holds discussions with Non-Executive Directors without the other Executive Directors being present. Led by the Senior Independent Non-Executive Director, the independent Non-Executive Directors meet without the Chairman present at least once a year to appraise the performance of the Chairman.

Bribery

All employees are expected to act professionally, fairly and with integrity in their business dealings at all times. The Board is responsible for ensuring that appropriate measures are taken by the Group in order for it to comply with the UK Bribery Act 2010 which is currently expected to come into force on 1 July 2011.

Relations with shareholders

The Group is committed to an ongoing dialogue with its shareholders, relevant regulatory authorities and other stakeholders. The Directors have regular and ongoing communication with shareholders throughout the year. The Chairman is responsible for ensuring the views of shareholders are communicated to the Board as a whole. The Directors also have regular contact with analysts and brokers, which aids their understanding of the views of major shareholders. The Strategic Director/Group Head of External Communications is responsible for ensuring the maximum possible level of transparency between the Group, its shareholders and stakeholders.

Employee communication

Since 2003, an independent trade union has represented workers' interests to the Group. The Group's management undertakes regular consultation sessions with employees to ensure that there is clear communication within the Group. The Group publishes a monthly internal newspaper to keep employees up to date with the Group's developments.

Focus on Pokrovskiy Mining College

“I was studying at university but I left in order to study at the Pokrovskiy Mining College. My father works at the Pokrovskiy mine and speaks a lot about it. I really like it here; the most important thing is the practical work experience offered. Without the Pokrovskiy Mining College, I would not have had the same job opportunities.”

Galina Voloshina
student at the Pokrovskiy Mining College





Investing in People, Education and Training

The Group is proud of its dedicated and highly-qualified workforce. Petropavlovsk has a long-term policy of investing heavily in local education and training to ensure that it is able to continue to employ from the best pool of talent available. This policy in turn allows individuals to reach their full potential and brings wider benefits to the Amur region.

The Group's education policy

Petropavlovsk's education policy is designed to provide support for all areas and levels of education, from local kindergartens through to universities.

The aim of this policy is to create the next generation of geologists, technicians, scientists, managers and skilled labourers who are crucial to the Group's success as it continues to evolve into a multi-mine producer, by investing heavily in local education schemes. This commitment provides the workforce, the majority of which live and work in the area, with a solid education, increases the number of job opportunities available, and in turn brings wider benefits to the region.

To date, the Group has supported more than 70 kindergartens, primary and secondary schools throughout the Amur region, as well as students entering higher education. Bespoke support is provided for each institution, ranging from the provision of laboratories to assistance in the construction of new classrooms and school buildings. By providing the necessary equipment and resources the Group hopes that local children will be able to start life with the best possible opportunities available, whilst aiding their professional development either within or outside the Group in later life.

Petropavlovsk is also proud to support its employees in obtaining further qualifications and progressing their careers wherever possible. The Group has a network of laboratories and research and development centres to support all aspects of mining technology. Not only do these contribute to the progress of the Group and the development of the Russian mining industry as a whole, they also provide staff with continuous on-site training. Through fostering this expertise, a culture that nurtures talent and innovation has become instilled throughout the Group.

Supporting local schools

Each year the Group supports schools and kindergartens in the Amur region, assisting with the purchase of the latest educational and sports equipment, and modernising facilities to help provide a good quality, educational environment to local children.

In 2010, the Group launched a new project entitled "Think about the future!" in the EAO, a region bordering the Amur region in the Russian Far East. The project involved a series of career advice sessions for local high school students. Highly experienced employees from the Group shared their expertise and insight into the mining. In order to maintain a sustainable interest and support young talent, the Group intends to repeat these sessions annually.



Child at a school close to the Pokrovskiy mine

2010 Group performance

- ▶ Continuation of the Group's policy of investment in regional education
- ▶ Funds spent on education and training of staff: RUB 66.4 million (vs. RUB 55.7 million in 2009)
- ▶ 126 students admitted to Pokrovskiy Mining College in 2010
- ▶ Higher education support provided to employees
- ▶ Collaboration with Amur State University on new course programme

University education

In 2007, employees at the Group's laboratories collaborated with teaching staff at a university in Blagoveshchensk, the capital of the Amur region and home to Petrovsk's regional headquarters, to create an advanced course in analytical chemistry for students studying in their final year. The course covers the theoretical analysis and practical work involved in metallurgical sample analysis. The practical work is undertaken in the Group's laboratories, offering students first-hand, relevant industry experience in the industry. Since the course was established, many of the students have been offered employment within the Group.

Students studying geology are offered the opportunity to undertake practical experience working in the Group's subsidiary dedicated to geological modelling, NPGF Regis.

In 2010, the Amur State University, in collaboration with Petrovsk's engineers, developed a new course programme in mineral processing. The first group of students will be admitted to the course in 2011. It is intended that experts from the Group's Pokrovskiy mine will teach a number of courses. The Group's facilities will be made available for practical work experience.

In addition, the Group is in the process of planning higher-education initiatives in cooperation with the Amur State University, the regional government and the Blagoveshchensk State Pedagogical University.

Employee education programmes

Petrovsk is proud to support its employees in obtaining further qualifications and job progression opportunities. By ensuring staff are trained to the highest standards, Petrovsk aims to continue its culture of nurtured talent and innovation.

The Group supports employees in undertaking degree courses at universities throughout Russia. The number of employees supported by the Group has been growing steadily since 2008.



Pokrovskiy Mining College

In 2007, the Group established a specialist mining college in Zeya, a town close to the Pokrovskiy and Pioneer mines. The college was founded to ensure that future Group employees were trained to the Group's standards.

The college offers the opportunity for local people to train in a skilled and specific mining profession, offering 42 foundation and intermediate courses which comprise seminars, conferences and training schemes.

Upon satisfactory completion of its courses, graduates are offered employment within Petrovsk.

Over the years in order to create and develop this institution, the college has received RUB 31.4 million from the Group. The college is now a renowned benchmark model for the region.

Since its establishment, over 360 students have graduated from the college, with 126 people admitted to the college courses during 2010.

The Group hosts regular internal technical conferences to exchange experience and create a learning culture of best practice. The Group facilitates training programmes and seminars by leading Russian and international specialists. Regular training is provided by specialist equipment providers to ensure continuous development of skills and expertise.



Focus on Health and Safety

“ Petropavlovsk is committed to ensuring that all its employees operate in a safe working environment and comply with Russian health and safety regulations and our own health and safety policies. We seek to ensure this through intensive monitoring and regular health and safety audits. We have an obligation to employees to continually revise and improve management systems, whilst providing ongoing bespoke training and ‘refresher’ health and safety courses. ”

Aleksandr Alekseyevich Davidenko

Head of Health and Safety at CJSC Management Company Petropavlovsk



Health and Safety

The Group operates in accordance with Russian health and safety legislation and is continually seeking to ensure that these practices are aligned with international best practice.

Health and safety management systems

All staff at the Group's operational sites and laboratories are provided with appropriate health and safety training and job-specific Personal Protective Equipment ("PPE"). Failure to wear the appropriate PPE provided by the Group is a serious disciplinary offence for all staff.

There are medical facilities and medically trained staff on duty for every shift at the Group's operational sites.

Internal monitoring and reporting procedures

The Group's Health and Safety Department conducts health and safety audits on a regular basis and to implement sanctions (including internal fines on workers and managers for identified breaches) and to make recommendations to improve health and safety performance. Regular reports on health and safety performance within the Group are submitted to the Executive Committee and the HSE Committee. During 2010, the head of the Group's Health and Safety Department was invited by the Board to discuss how his department was responding to the accidents that occurred at the Group's operations during the year.

External audits

External auditors visit the Group's operations annually to review the Group's health and safety policies and procedures and make appropriate recommendations to the HSE Committee.

The governmental authorities also visit each of the Group's operations approximately three times a year to inspect explosives storage, industrial facilities and to check health and safety procedures and documentation.

Implementation of OHSAS 18001

In 2009, OJSC Pokrovskiy Rudnik (the entity that holds the Pokrovskiy and Pioneer licences) implemented independently verified health and safety management systems in accordance with ISO Standard OHSAS 18001.

Accidents in 2010

Regrettably, there were three on-site fatalities at the Group's operations during 2010. Thorough investigations were undertaken by the Group to understand the causes of the accidents and to recommend measures to prevent them from recurring.

Immediately following the publication of the inquiry results, the Head of Health and Safety at CJSC Management Company Petropavlovsk, Mr Alexandr Davidenko, held an extraordinary meeting with all site managers holding operational responsibility to review and assess the findings. The findings concluded that poor workmanship and poor organisation were factors in the fatalities and steps have been taken to address these issues.

The Group is currently investigating a range of measures it can take to minimise the risk of accidents and to improve its accident response. Following these incidents, additional and enhanced technical measures will be implemented at all operational sites. Although the Group already provides regular training to its on-site staff, it is investigating how this can be optimised in light of these accidents. The Group is also seeking ways it can improve first aid response.

The Group would like to express its sympathies to the families of its lost colleagues.

Occupational diseases

There were no occupational diseases reported in 2010.

2010 Group performance

- ▶ 2010 Lost time Injury Frequency rate: 2.90 per million hours worked, down 31% from 3.80 in 2009
- ▶ Total number of occupational diseases: zero (vs. zero in 2009)
- ▶ Violations of safety rules: 164 (vs. 771 in 2009)
- ▶ Legal prosecutions for safety violations: zero (vs. zero in 2009)



Compliance with Russian health and safety legislation

During 2010, there were no legal prosecutions as a result of health and safety violations.

Lost time injury frequency rate

The Group recorded 45 lost time accidents (of which 3 were fatal) during 2010 which produced a Lost Time Injury Frequency ("LTIF") of 2.90 accidents per million manhours worked. This compares to the 2009 figures of 48 lost time accidents and an LTIF of 3.80.

Lost Time Injury Frequency Rate (per million hours worked)

2010	2009	% change
2.90	3.80	(31%)

Going forward

Petropavlovsk strives to ensure that workers operate in a safe manner to protect themselves, their colleagues and the public. Going forward, internal audits will continue to be used to identify violations of safety procedures and disciplinary action, including fines or dismissal of individual workers, will continue to be taken.

During 2011, the Group will continue to focus proactively 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.

Regrettably during the first few weeks of 2011, there was a serious accident at Pioneer. The operator was not following standard procedures and was not wearing his helmet. The consequences of this omission resulted in the employee receiving severe head injuries from a falling rock. A meeting was subsequently convened by the Group's Chief Executive Officer, Dr Pavel Maslovskiy, at which almost all senior management was present. Dr Maslovskiy gave a very clear message of a zero-tolerance approach and that breaches of health and safety would constitute a disciplinary offence. A health and safety presentation was made by Mr Davidenko to reinforce this message.

Cyanide management

Gold is extracted at Petropavlovsk's hard-rock operations using conventional cyanide-based ore processing technologies. In addition, Petropavlovsk operates a pilot plant facility in Blagoveshchensk. All residues and wastes from this facility, solids and liquids are disposed of to a dedicated fully permitted, tailings management facility, located outside the city.

Petropavlovsk is seeking to align the use of cyanide at its operations with the International Cyanide Management Code ("ICMC"). The ICMC is a voluntary industry programme for the gold mining industry, established to promote the responsible management of cyanide used in gold mining, to enhance the protection of human health and to reduce the potential for environmental impacts. Companies that become signatories to the ICMC must have their operations audited by an independent third party to demonstrate their compliance with the ICMC. Audit results are made public on the ICMC's website to inform stakeholders of the status of cyanide management practices at certified operations. Petropavlovsk is aiming to obtain ICMC certification for Pokrovskiy, Pioneer, Malomir and Albyn by the end of 2013.

During 2009, Petropavlovsk appointed an independent external consultant, Golder Associates, to conduct a gap analysis audit against the ICMC of Petropavlovsk's operations which used cyanide to extract gold, at that stage, from Pokrovskiy and Pioneer. The report concluded that Petropavlovsk has good systems in place for the management of cyanide and is compliant with Russian regulations. However, a number of relatively minor changes were proposed to bring operations in line with good practice and to meet the requirements of the ICMC. These included the conducting of practice drills for cyanide medical and environmental emergency response, implementation of certain minor wildlife protection measures, enforcement of current health and safety procedures, workforce cyanide awareness training and the re-use, management and disposal of the drums which form the outer packaging of the cyanide containers.

The HSE audit, conducted by WAI during the first quarter of 2011, concluded that cyanide is well managed at all the Petropavlovsk operations and that there was clear evidence that the findings of the 2009 ICMC code audit are being implemented at Pokrovskiy and Pioneer.

Workforce Engagement and Support

The Group has an organisational structure in place to ensure all aspects of its operations, including social and community relations and health, safety and environmental performance, are monitored at all management levels.

Employing local people

The Group endeavours to employ local people whenever possible and is one of the largest tax payers in the Amur region. The Group anticipates that additional employment opportunities will be created ahead of the commissioning of the Albyn mine and as Malomir develops further. The Group will monitor all new projects closely to ensure that they have a positive impact on local communities.

Almost all the Group's key employees, including operational management, are Russian nationals and a number are local to the Group's operations.

Trade Union

In order to establish a beneficial and transparent dialogue between employees and management, an independent trade union was set up in 2003. Elected by the employees every four years, the Trade Union Committee handles a wide range of issues and seeks to improve the employees' wellbeing on and off-site. Petropavlovsk allocates the Union a budget which is used to give financial support to young families, subsidies and discounts for holidays for employees and their families, as well as assistance with accommodation for new and existing employees.

The Trade Union Committee holds regular consultation meetings between the Union and the Group's subsidiaries, as well as frequent reviews of the Group's current labour policy, in order to ensure it is balanced and effective. By engaging with the Trade Union, the Group is able to develop a strong, supportive programme for its employees.

Newspaper and communications

As a large and geographically dispersed organisation, the Group has always recognised the importance of communication, not only with its stakeholders, but also with its staff. In order for the Group to successfully continue its expansion, it is vital that the culture of two-way communication continues, aiding the spread of best practice between the different operations.

The Group undertakes a range of internal conferences and seminars each year on specific disciplines to promote the sharing of information and experiences between colleagues in order for them to learn from one another.

In addition, the Group has circulated a free monthly internal newsletter since 2006, and has launched a quarterly corporate magazine in December 2010. The content of these publications includes corporate and operational updates, profiles of management and employees, as well as regional information, reflecting the extent of the Group's operations across different areas. To promote participation in the newspaper, employees are encouraged to submit suggestions to management directly or through the use of suggestion boxes, located in close proximity to key operational areas. In turn, it is envisaged that the paper will create an interest in the general development of the Group.

Getting feedback from employees

In 2011, the Group is planning to perform a poll amongst its employees measuring the levels of job satisfaction, team dynamics, relationships and socio-economic factors. The results of the poll will be reported in due course.

Key principles of the Group's workforce engagement and support facilities

- ▶ Competitive wages to attract and retain talent
- ▶ Union to support workers' interests
- ▶ Corporate newspaper circulated to inform and to engage
- ▶ Excellent housing and facilities offered
- ▶ Gender equality promoted



Facilities and housing

The Group strives to recruit staff from local communities, however, given the number and remote location of many of its projects, it has widened this search to include areas further afield. As a result, a work pattern was established whereby employees work and stay on-site for a fortnight or a month and then have the same amount of time off-site with their families at home. This work structure allows employees to maintain their family commitments, and also ensures the mines operate 24 hours a day, 365 days of the year.

Whilst employees are on-site, the Group offers high-quality accommodation and canteens, as well as on-site sports and leisure facilities. Given the strength of the Group's engineering division, all facilities and housing are designed and constructed by in-house teams.

In 2010, the Group completed the construction of accommodation facilities at the new mine, Malomir. The facilities include dormitories, apartments, recreational facilities, as well as a hotel for site visitors.

There are fully-equipped medical centres, with full-time medical staff at Pokrovskiy, Pioneer and Malomir.

The Group offers off-site housing for some of its workforce and their families who have been with the Group for more than five years.

Wages

As one of the largest employers in the Amur region, the Group prides itself in offering competitive wages and benefits, in order for it to continue being viewed as an attractive choice for prospective employees. The Group seeks to align these wage levels with the regional average and endeavours to utilise local businesses to provide support services for its operations, which in turn improves the prospects and quality of life for many people and benefits the Amur region as a whole.

Gender equality

The Group maintains an equal opportunities policy throughout its operations and does not differentiate salaries on the basis of gender. Within the Group, women have the opportunity to reach the highest levels of the business, such as taking management positions and sitting on the Board of Directors.

Operational management

The Group is proud of its experienced and strong management team, many of whom have been with the Group since its inception and have been instrumental in building the Group from its initial beginnings into the multi-mine Russian gold producer that it is today. The Board works closely with operational management to achieve the Group's objectives.



Focus on Environmental Monitoring

“ 21 June 2011 will mark ten years since I started working for the Group. Since then, I have seen the Group develop from a small mining enterprise into one of the top three gold-producers in Russia. There was a time when I was the Group’s only ecologist. Nowadays, there are environmental monitoring departments across the Group. These departments employ highly-skilled professionals, whose work ethics can be described by the proverb: ‘We have not inherited the earth from our ancestors; we have only borrowed it from our children’. The Group devotes a considerable amount of attention to environmental issues in order to reduce the impact of our operations on nature and minimise risks. The Group has always managed its environmental impacts in accordance with Russian legislation. We are aligning our environmental policy with international best practice. ”

Vera Vyacheslavovna Usova

Head of Environmental Safety, CJSC Management Company Petropavlovsk



Managing Environmental Impacts

Petropavlovsk manages the environmental impact of its operations in accordance with Russian regulatory requirements and is seeking to go beyond this by aligning its current practices with internationally recognised industry standards.

Approach to environmental monitoring, permitting and reporting

A comprehensive monitoring programme is conducted at the Group's operational sites with samples analysed at the Group's laboratories. Monitoring data is collated on a regular basis and submitted to local authorities for analysis. The Group's operations are compliant with Russian legislation regulating discharges to air, water, soil, tailings and waste management.

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 to be drawn up for each mining project (an "OVOS" report). 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 strict compliance where possible. 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.

The Group monitors environmental and climatic conditions, and at this stage has not identified any material risks related to climatic variability. The probability of extreme weather events is factored into facility design from the outset.

An environmental report is prepared on a monthly basis for the Executive Committee and on a quarterly basis for the HSE Committee.

IRC maintains an environmental reporting system, which is detailed in its Annual Report, available from www.ircgroup.com.hk.

Rehabilitation

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

2010 environmental performance

During 2010, an ESIA was prepared by independent consultants Ecoline to meet good international industry practice standards at Malomir. The ESIA was carried out alongside the Russian regulatory permitting process. This is the first such ESIA undertaken for Petropavlovsk.

The ESIA was reviewed at a corporate level with the assistance of independent international consultants Citrus Partners LLP. This process identified key risks, operational risks and design-related risks. These risks – the environment, worker health and safety and local communities – were evaluated to allow mitigation measures to be developed to manage and reduce all identified risks to acceptable levels. A comprehensive Risk Mitigation Measures Action Plan has been compiled for the project by Citrus Partners. It is the intention to implement this plan throughout 2011. As part of this, it is the Group's intention to update the ESIA to include a tailings dam safety assessment for the main tailings dam.

The ESIA was reviewed by WAI as part of the HSE audit which was conducted during the first quarter of 2011 to identify the HSE and social investment progress made during 2010. No significant flaws resulting from the operations at Malomir were identified. WAI noted that this document forms an effective basis for environmental management at Malomir.

The Group intends to prepare an ESIA for Albyn during 2011 in time for the plant's commissioning during the final quarter of the year. In 2010, environmental baseline data was collected in preparation for this and as part of the OVOS process. Environmental permitting is ongoing.

2010 Group performance across Group operations

- ▶ Number of environmental licence violations: zero (vs. zero in 2009)
- ▶ Environmental incidents across Petrodavlovsk:
 - Category 1 – minor: 93 (vs. 77 in 2009)
 - Category 2 – considerable: zero (vs. six in 2009)
 - Category 3 – major: zero (vs. zero in 2009)

During 2010, a new Tailings Management Facility (“TMF”) was designed for Pioneer to supplement the existing tailings facility, which the Group anticipates will shortly be full. The design of the new TMF facility was approved by the relevant regulatory bodies. WAI noted that it believes that the design concept is appropriate and sound.

Monitoring data for 2010 for Pokrovskiy, Pioneer and Malomir has identified no air or water quality impacts from mine operations or that which doesn’t comply with relevant permits and licences. WAI noted that all environmental permits for operational mines were valid, and permitting for the Group’s non-operational assets was progressing well.

Benchmarking data

The Group has benchmarked its 2010 performance against its performance in 2009 and against industry peers. Consumption of cyanide and water rose during 2010 in line with the commissioning of the Malomir mine and a third mill at Pioneer. Benchmarking will allow operational management to focus on improving resource efficiency – reducing environmental impacts and also reducing costs.

Metric	Unit	2009	2010	Industry Benchmark
Water	Litres used per kg Au produced	295,797	330,724	477,000
Cyanide	Kilograms used per kg Au produced	140	286	150
Greenhouse gas emissions	T-CO ₂ e per kg Au produced	10	13	11.5
Energy	GJ used per kg Au produced	134	161	146

Note: Industry benchmark data taken from Mudd, G, 2007. Resource Consumption Intensity and the Sustainability of Gold Mining, 2nd International Conference on Sustainability Engineering & Science, Auckland, New Zealand – 20-23 February 2007. Conversion factor used: 0.028349523 oz to kg / 0.0036 kWh to GJ / 0.034 GJ per litre (liquid fuels) / 17 GJ per tonne (coal)

Analysis of benchmarking data for 2010

Water consumption

Per unit water consumption is up approximately 11% per unit of gold produced. This reflects the start-up/expansion operations at Pioneer and Malomir in 2010, as well as the increase in alluvial mining.

Cyanide consumption

Per unit cyanide consumption is up approximately 100% per unit of gold produced. Operational consumption was as follows:

- ▶ Pioneer – (2009 = 897.6t; 2010 = 2,839.5t)
- ▶ Pokrovskiy – (2009 = 1,040.2t; 2010 = 1,158t)
- ▶ Malomir – (2009 = 0t; 2010 = 118.25t)

The increase in cyanide consumption is principally attributable to the installation of a new processing plant at Pioneer. Malomir had high consumption rates during the start-up phase of ore processing from the Quartzitovoye deposit.

Greenhouse gas emissions

Electrical power is provided from hydro power sources. As such, greenhouse gas emissions reflect diesel and coal consumption. These are up by approximately 30% per unit of gold produced. Increased emissions are considered likely to reflect increased exploration, construction and development activities and the associated use of mobile machinery.

Energy consumption

Energy consumption data reflects diesel, coal and electricity consumption. Energy consumption is up by approximately 20%. As above, this is considered to reflect the Group’s increased exploration, construction and development activities and associated use of mobile machinery, combined with increased energy consumption in the mills.

Petropavlovsk Foundation

During 2010, the Group collaborated with local government authorities to launch the Petropavlovsk Foundation for Social Investment (“the Foundation”) to consolidate the Group’s existing social activity into one investment vehicle. It was envisaged that the centralisation of the Group’s existing sustainable development programme would ensure funds would be better targeted at the relevant causes.

The aim of the Foundation is to contribute to the social and economic development of the regions affected by the Group’s business. In doing so, the Foundation seeks to support the commitment to sustainable development in the Group’s policies, strategies and practices, to centralise the Group’s sustainable development programme, to promote the development of Far East Russia and to contribute to the development of positive relations with federal and local authorities and the communities affected by the Group’s operations.

Targeted activities

The Foundation’s targeted activities include: improving the quality of life of children (including investment in education), the provision of funds for facilities for the elderly, the provision of funds for hospitals and other medical facilities, the development of ecological programmes and investment in cultural and sports activities and programmes, such as local museums, libraries and churches. The Foundation is also involved in arts, crafts and film events in the region.

Management

The Foundation is managed by a governing board, which includes the Chief Executive Officer of Petropavlovsk PLC, and is supervised by a board of guardians, which comprises the Group’s key operational management, key figures from local government and community leaders.

Improving the quality of medical services

One of the areas that the Group has focussed on in the past year is improving the quality of the medical services available in the region. As part of this project, the Foundation has worked to improve the access to healthcare services for local people of all ages.

The Amur Clinical Paediatric Hospital in Blagoveshchensk is one of the Russian Far East’s largest and most modern medical facilities. In the Autumn of 2010, the Foundation committed to supporting the hospital, which treats children of every age from all over the region. As a result, the hospital has been able to buy new equipment for its expanding anaesthesiology department. This equipment has already been installed and is now being used by local specialists at the hospital.

Assisting schools

The extreme climate experienced in Russia’s Far East means that local food resources can be limited. In an initiative to improve the quality of life of children and young people in the region, the Foundation has launched a project to provide food aid to two schools which lack both funding and support: the Severyanka nursery and the Stoiba School.



2010 Group performance

- ▶ Development and implementation of Petrovsk Foundation for Social Investment
- ▶ Total charitable donations from across the Group: US\$2.5million



Supporting local children

During 2010, the Foundation supported a number of Christmas festivities which were attended by 570 socially disadvantaged children and orphans. School children from the Amur region also received Christmas presents sponsored by the Group.

During 2010 the Foundation collaborated with a local charity, Sofia, to provide funds for specialist day care centres for local children with disabilities and to provide funds for a local child to have an operation.

Culture and sport

In September 2010, the Foundation sponsored a local theatre and cinema festival, "Amur Osen" ("Autumn in the Amur region"). The festival presented the work of over 200 Russian and international directors, together with critical lectures and debates.

In October 2010, the Foundation donated a Microbox Book2Net Book Scanner, worth approximately RUB 1.5 million, to a local library. The scanner will enable the library to preserve rare local literary material. The Group has also launched a project supporting the library of the Moscow Ecclesiastical Academy, one of the oldest higher education institutions in the Russian capital. One of the first initiatives, to preserve the library, included installing a fire alarm system as the library holds the largest collection of rare religious literature in Russia.

The Group encourages the promotion of sports in the region and regularly supports local competitions, and events. In 2010, the Group sponsored local athletes including a professional football team, a local swimming team and a yacht club to take part in national and international competitions. The Foundation also supported a local dance festival.



Children's drawing competition

During the first half of 2010, a drawing competition titled 'The Far East: My Homeland' was organised by the Group's subsidiary OJSC Pokrovskiy Rudnik for the children of Petrovsk employees.

Sixty children from sixteen towns and villages in the Amur region and EAO took part in the competition. A panel chose the best works and the winners were awarded prizes including computers, televisions and computer games consoles. All other children received paint-brushes, paints, pencils and sketch books.

Given the success of this competition, it will become an annual event in future.

Supporting Local Communities

As the Group continues to evolve into a multi-mine producer, it is committed to maintaining an ongoing and active dialogue with the local communities and local and regional authorities in order to develop positive, long-term relationships with the communities within which it operates.

Community dialogue

Local communities are engaged by the Group throughout the lifetime of an operation. Local communities are consulted during the project design and permitting phase in line with Russian regulatory requirements and international good practice and ongoing dialogue is maintained with local communities during construction and operations. The Group is committed to maintaining an active dialogue with its host communities, going beyond formal regulatory requirements and ensuring that local communities and administrative bodies are actively involved in the Group's development plans and have the opportunity to influence designs and decision-making to reflect local needs and concerns.

Supporting the Evenk community

The Evenks are an indigenous group that inhabit a large territory of north-eastern Russia, including part of the Amur region, close to the Kuranakh mine which is operated by the Group's subsidiary, IRC. The Evenk community is regularly employed to supply the mine with varying kinds of food and traditional Evenk products in order to support their traditional way of life. In addition to the purchase of local goods and services, the Group strives to support the Evenk community in safeguarding their culture, by supporting festivals aimed at exchanging traditions and customs. In addition, the Group has assisted in compiling a dictionary of the Evenk language. The Group's relationship with the Evenk and the local community is further strengthened through the continued employment of local workers.

In 2010, the Petropavlovsk Foundation for Social Investment collaborated with the Evenk Community Council to establish key sponsorship priorities in order to preserve the traditions and culture of this indigenous group.

Stakeholder Engagement Plan

A Stakeholder Engagement Plan ("SEP") has been created for Malomir which is in line with International Finance Corporation ("IFC") standards and international best practice guidelines.

Development of infrastructure

The Trans-Siberian and Baikal-Amur ("BAM") railways cross the Amur region and pass close to the Group's key mines and projects. The Pokrovskiy mine, for example, is approximately 10km from Tygda, the nearest station on the Trans-Siberian railway. In addition, key infrastructure at Albyn was already in existence due to mining activities undertaken in the area during the Soviet era.

IRC is collaborating with the Russian Railways and national and local authorities on the construction of a new railway line linking the towns of Shimanovsk and Gar, as well as the construction of an international railway bridge connecting the EAO with China. The regeneration of a nearby sea port is also under way. These projects will be beneficial to the Group when its K&S and Garinskoye projects are in production as they will facilitate the transportation of future iron ore production. Independent studies have shown that this improved infrastructure will facilitate local trade, and thus will also be beneficial to other areas of the local economy.

Promoting Russian culture abroad

The Group's work to support the Russian community is not just at home, but also abroad. The Company is now in its fourth year of sponsoring Russia's Victory Day in London, which Russian war veterans attend. Over the years, the Group has also supported a number of cultural events, including Russian film festivals, art exhibitions and Russian-language plays in London. In 2010, the Company was also the proud sponsor of a free family-orientated festival in London aimed at promoting the Russian springtime festival of Maslenitsa.

GRI Indicators for Petropavlovsk Sustainability Report 2010

The Report was produced in line with Global Reporting Initiative (“GRI”) Guidelines, in accordance with the strategy previously adopted by the Group of gradually aligning its sustainability reporting towards the requirements of the GRI.

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Shareholder Information

Registered and Head Office

Additional information on Petropavlovsk may be obtained from the Company's website, www.petropavlovsk.net or by contacting the Company's Head Office:

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Petropavlovsk PLC is registered in England and Wales.
Company number: 4343841. Petropavlovsk PLC is listed on the main market of the London Stock Exchange plc.
The Company ticker is POG.

Additional information on IRC Limited may be obtained from www.ircgroupp.com.hk

Registrars

Enquiries relating to shareholdings should be made to the Group's UK Registrars, Capita Registrars:

Capita Registrars
The Registry
34 Beckenham Road
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Telephone: 0871 664 0300
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