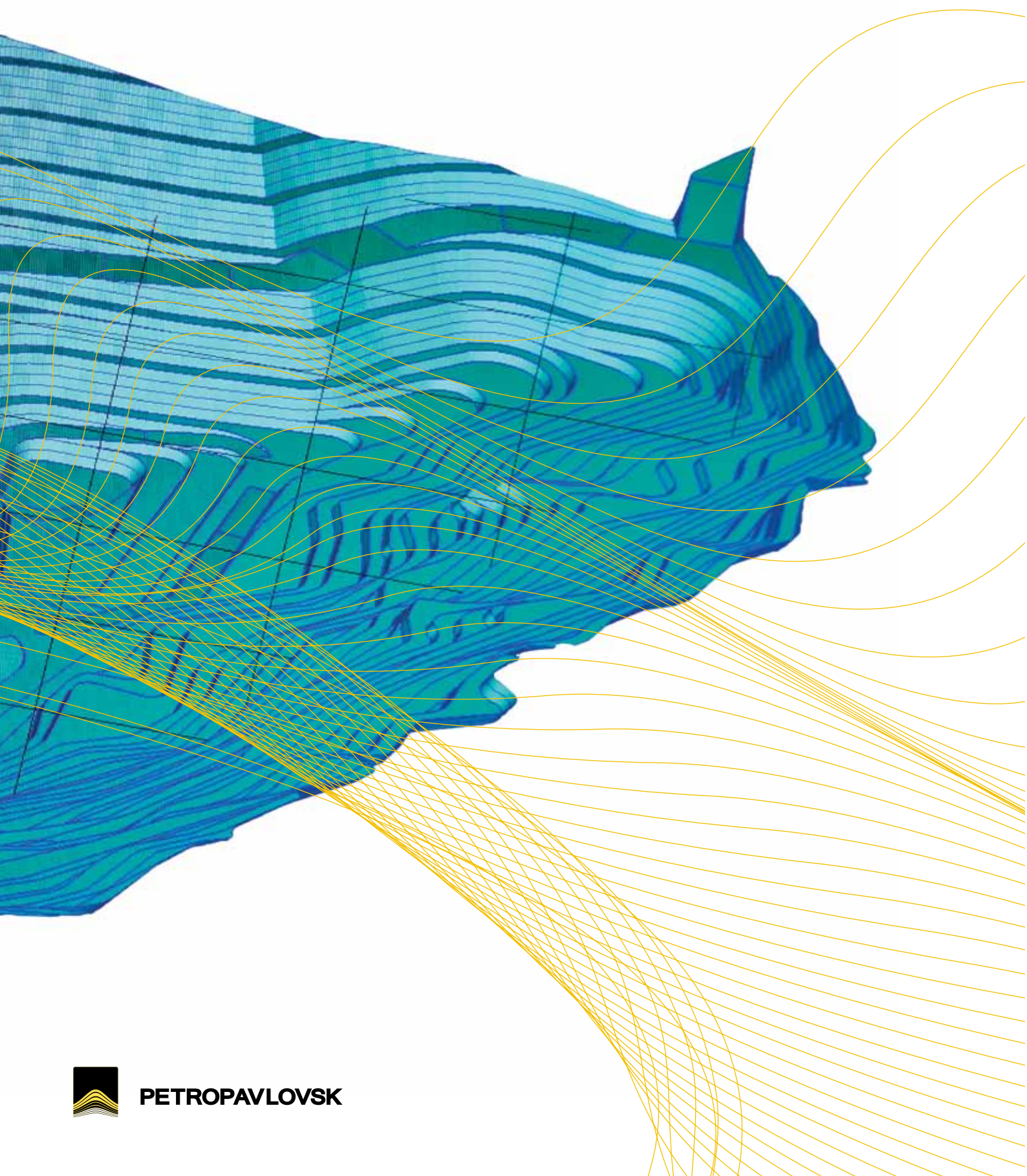


Growing our
business responsibly

Sustainability Report 2011



PETROPAVLOVSK

Founded in 1994, Petropavlovsk has grown to be one of the leading gold producers in Russia.

The Group recognises that its success to date is complemented by its commitment to act in a safe and responsible manner and to build its team organically via the career development opportunities and the educational programmes supported by the Group.

The Group is committed to acting in a responsible manner, protecting the environment, safeguarding the welfare of its employees and maintaining good relationships with the communities in which it operates.

We are proud of the leading role we play in the Russian Far East.



- 01 Aerial view of the Selemdzhinskiy district of the Amur region, close to the Malomir mine.
- 02 Children from a village close to the Albyn mine.
- 03 Employees at the Group's flagship mine, Pioneer.



Cover image
3D image of an open pit at the Malomir mine prepared by the Group's engineering institute, PHM Engineering.

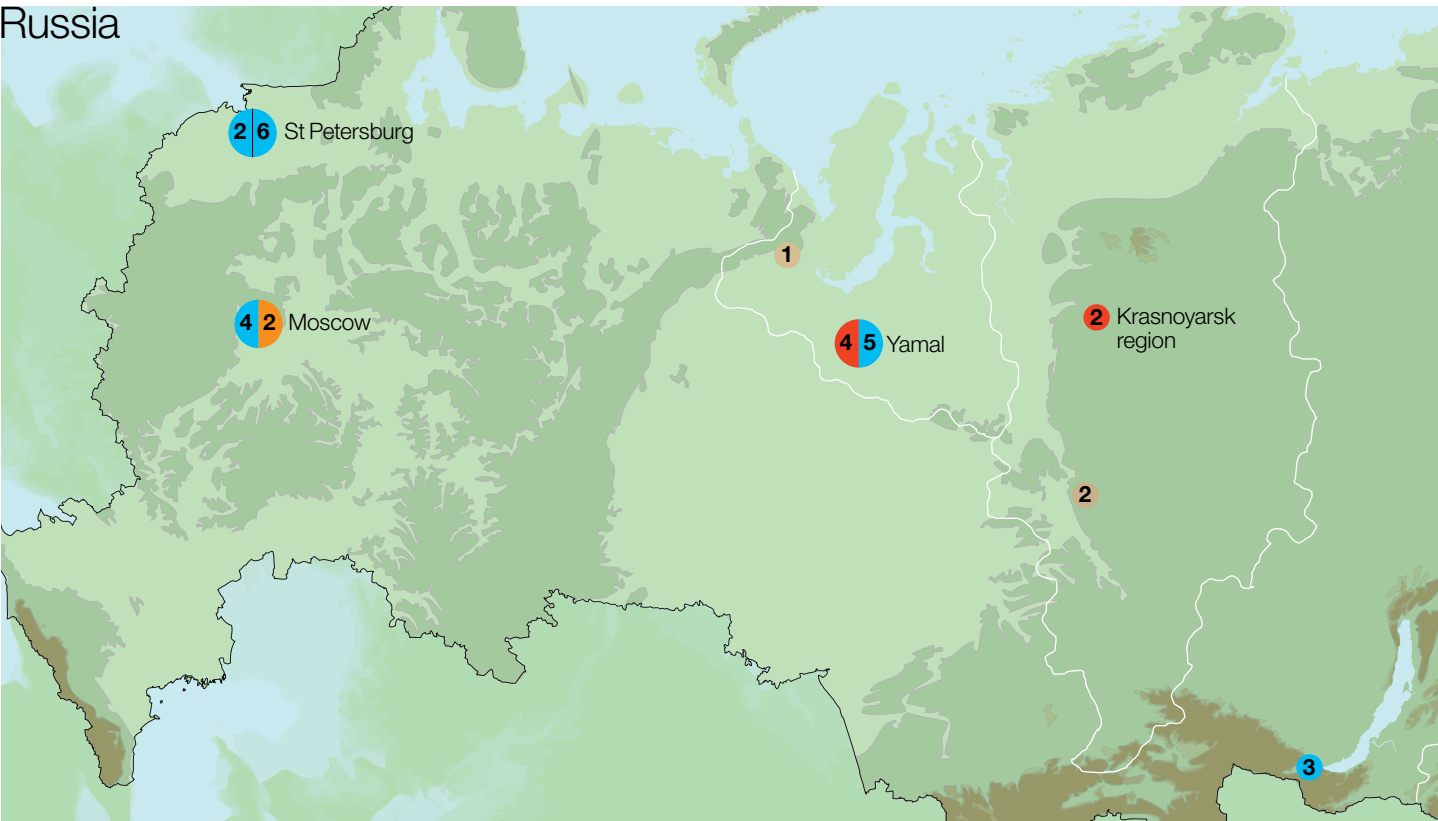
Who we are

Petropavlovsk is a leading Russian gold producer with a strong growth profile. The Group’s success to date has been based on a robust development strategy, scientific expertise and a knowledgeable and experienced management team. The Group has a quality asset base, a wealth of knowledge of the Russian and global mining industry and experience in identifying and developing profitable projects. The Group’s objective is to create long-term shareholder value through the discovery, acquisition, and development of natural resources.

What we do

Petropavlovsk’s strategy is to foster sustainable growth through the acquisition of low-cost projects for in-house development at competitive costs and in competitive timeframes. This strategy is based on the Group’s technological know-how and managerial ability to be at the forefront of the latest industry trends. Following this strategy, the Group has created a strong record of mine development in remote areas using a dedicated network of R&D centres, which support and drive forward the further expansion of its business.

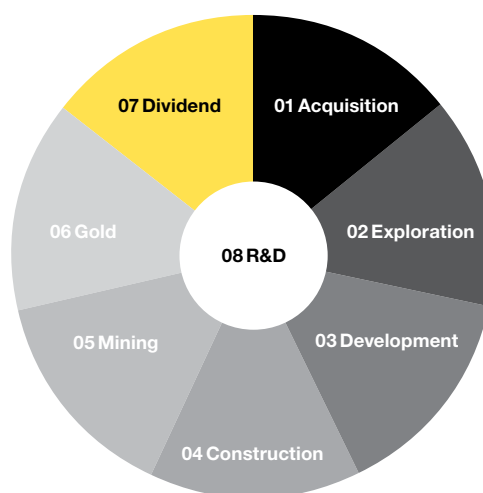
| Gold producing projects | Gold development projects | Key exploration sites | Management centres |
|---|--|--|---|
| <p>Hard-rock, open-pit mines in one of the leading gold mining regions of Russia. Cluster approach to mine development using synergies of projects located in close proximity</p> <div><div>1</div><div>Pokrovskiy</div></div> <div><div>2</div><div>Pioneer</div></div> <div><div>3</div><div>Malomir</div></div> <div><div>4</div><div>Albyn</div></div> <p>The Group also operates a number of alluvial operations</p> | <p>Projects expected to be brought into production in the short to medium term. Projects located in the Amur region and in other prospective regions of Russia</p> <div><div>1</div><div>Petropavlovskoye, Yamal region</div></div> <div><div>2</div><div>Visokoe, Krasnoyarsk region</div></div> <div><div>3</div><div>Verkhne Aliinskoye, Chita region</div></div> <div><div>4</div><div>Tokur, Amur region</div></div> <div><div>5</div><div>Pressure Oxidation ("POX") hub, Pokrovskiy</div></div> | <p>Exploration both at producing assets and greenfield sites, with a focus on expanding and improving the reserves and resources base of existing mines and identifying new growth clusters</p> <div><div>1</div><div>Amur region</div></div> <div><div>2</div><div>Krasnoyarsk region</div></div> <div><div>3</div><div>Chita region</div></div> <div><div>4</div><div>Yamal region</div></div> | <p>A vertically integrated management structure across four corporate offices, consistent both with the Group’s organisational structure and best practice in corporate governance</p> <div><div>1</div><div>London, UK office</div></div> <div><div>2</div><div>Moscow, National office</div></div> <div><div>3</div><div>Blagoveschensk, regional office</div></div> <div><div>4</div><div>Hong Kong, IRC Limited – 65.6% subsidiary (not on map)</div></div> |



Where we operate

The Group's operations are predominantly located in Russia and focus on the Amur region in the Russian Far East, one of the main Russian gold mining regions. The Amur region benefits from good infrastructural links and access to hydro-electric power. Favourable geological conditions account for the region's impressive mineral resource base and exciting exploration potential. The region boasts a strong mining tradition and a skilled workforce, who are part of the qualified personnel employed by the Group.

Our business model at a glance



Go to page 9 in our Annual Report 2011 for our business model in full

R&D support base

A network of R&D centres, engineering institutions, laboratories and a pilot test plant to support the Group's operations at every stage of development

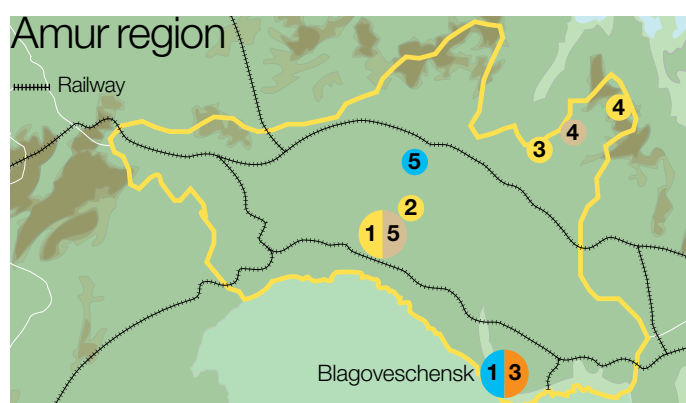
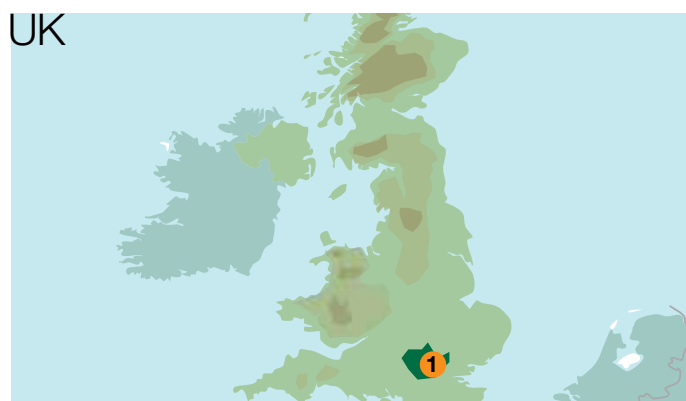
- 1 Pilot test plant, *Blagoveschensk*
- 2 Gidrometallurgiya Scientific Research Centre, *St Petersburg*

- 3 Irkutsk Research Institute of Precious Metals and Diamonds ("Irgiredmet")
- 4 PHM Engineering, *Moscow*
- 5 Laboratory network, *Amur region and Yamal*
- 6 Giproruda, *St Petersburg* (owned by IRC)

Technical services

Group subsidiaries support each stage of project development by providing technical services including geological exploration work and project construction (*not on map*)

- 1 Regis
- 2 Dalgeologiya
- 3 Kapstroj
- 4 BRMZ



Overview

An overview of this report, a look at our business and our strategy for growth in the context of sustainable development, our approach to managing our sustainability risks, our values and commitments

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Our people

How we manage our employees and ensure our operations are run in a safe and responsible manner and details of our long-standing programme of investment in regional education

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Our community

Our commitment to promoting the social and economic development of the regions in which we operate and improving the quality of life of the people who live there

| | |
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The environment

Running our business responsibly to reduce the impact our operations have on wildlife and the natural environment, our approach to cyanide management

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Appendix

Supplementary information including a list of the Global Reporting Initiative ("GRI") indicators covered in this report, independent assurance statement and where to go for further information on the Group

| | |
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Chairman's Statement

Peter Hambro



"2011 was a record year for the Group. We delivered record gold production, sales and revenues, commissioned Albyn, our fourth gold mine and new processing lines at Pioneer and Malomir. We increased our reserves and resources base through the success of our exploration programme and made good progress towards the commissioning of our pressure oxidation processing hub in 2013."

Peter Hambro
Chairman

Achieving all this was challenging for management. The successful running of a multi-mine operation is a skill that we have had to learn but I am pleased to be able to report that this challenge has not been detrimental to our HSE work. We had no major HSE issues during the year and improved our Lost Time Injury Frequency Rate, reflecting the impressive work of our management teams in driving forward health and safety improvements and exploring how we can overcome working culture issues to minimise the risk of accidents. On the environmental front, we continued to perform well. Our new mine, Albyn, received all the necessary environmental permits while consultations with villages close to the mine reaffirmed that we continue to receive local support.

Since Dr Pavel Maslovskiy and I co-founded the Group in 1994, Petropavlovsk PLC, as it is now called, has grown to become one of Russia's largest gold producers, with a pipeline of exciting exploration and development projects to take us to even greater heights in the future. Part of our success in such a relatively short period of time is due to the fact that, throughout our history, we have always strived to operate in an efficient, responsible, transparent and sustainable way, supported by a motivated workforce and the local community. We have always believed that the mining industry has a particular responsibility to care for the environment in which we work and to mitigate the environmental impact of its operations. We work in line with rigorous permitting legislation and environmental monitoring requirements; our management is always exploring how we can further align our processes with internationally recognised industry best practice.

As one of the members of the original founding team, I am able to look back with pride at what we have achieved over the past 18 years and the positive effect our presence has had on many communities in the Amur region, where we are now one of the largest employers and tax payers. Since inception, we have been committed to using part of our profits to support a variety of social programmes from equipping hospitals and schools to sponsoring cultural events. With the growth of the Group, this work is now undertaken by the Petropavlovsk Foundation for Social Investment, now in its second year of operation. The Foundation donated US\$3.4 million (c. 84 million Roubles) in 2011 to causes in the Russian Far East. Our continued support of regional education institutions provides career opportunities in an area of historic high unemployment and will supply us with qualified personnel to meet our future human resource requirements as we expand our operations in the coming years.

Our employees remain a cornerstone of our growth and we will continue to strive to be an employer of choice by providing good facilities and competitive wages. I would like to take this opportunity to thank all our employees for the hard work and commitment they have shown during 2011. It is as a direct result of their efforts and dedication that we have achieved the excellent results set out in this report and our 2011 Annual Report.

Peter Hambro
Chairman

Chairman of the Health, Safety and Environmental Committee Sir Roderic Lyne



“Sustainability must be much more than a slogan. We are determined that sustainability should be at the heart of the values which drive Petropavlovsk.”

Sir Roderic Lyne
Chairman of the Health, Safety
and Environmental Committee

For this reason, you will find a clear statement of Petropavlovsk's values and commitments, which have been developed by the Board, on page 7 of this Sustainability Report. This statement underlines the importance we as a Board, and as a company, attach to the safety of our operations, the training and care of our employees, our impact on the environment, and our responsibilities to the wider community.

As a Board, one of our objects is to embed these values at all levels of the Group. Within the Board, the Health, Safety and Environment (“HSE”) Committee has a particular responsibility to ensure that the Group's performance in these areas matches the standards we have set.

At each meeting of the HSE Committee, we review detailed information, provided mine by mine, on safety and environmental performance.

The HSE Committee commissioned a special report after three fatal accidents had occurred at different mines but within a few months of each other, in 2010. The Head of Occupational Health and Safety, Mr Alexander Davidenko, travelled to London to discuss with the HSE Committee the measures to be taken to minimise the risk of any recurrence. Consequently, changes have been made.

The Board has visited the Group's operations in Russia at regular intervals to ensure directors have first-hand appreciation and experience of the sites and working conditions. These visits have also enabled us to meet management and employees working on the ground.

This is the fifth standalone annual Sustainability Report produced by Petropavlovsk and its predecessor company, Peter Hambro Mining.

The Report tells a story which is very positive. We are enlarging the scope of our activities and seeking constant improvements in results. We can be pleased with this, but never complacent. True sustainability requires constant attention and an enduring commitment.

A handwritten signature in dark ink, reading 'RM Lyne'.

Sir Roderic Lyne
Chairman of the Health,
Safety and Environmental
Committee

Approach to Reporting

Petropavlovsk recognises the importance of providing its stakeholders with an overview of its sustainability performance which goes beyond the information provided in its Annual Report.

01



02



03



01 Aerial view of the Amur region, Russian Far East, home to the Group's four hard-rock gold mines.

02 A cultural event sponsored by the Petropavlovsk Foundation held in Ivanovskoye, an Evenk village close to Albyn. The Evenks are an indigenous group to part of the Amur region.

03 An employee at the Pioneer mine carrying out a safety inspection.

The Group's objective in publishing regular sustainability reports is to enable its shareholders in London and worldwide and its stakeholders in the Russian Far East to monitor and evaluate the Group's sustainability performance against international best practice standards and the Group's own values and commitments, which are outlined on page 7 of this Sustainability Report (the "Report"). The Group's stakeholders in the Russian Far East are considered to be its employees and communities local to its operations.

Reporting period

The Report covers the financial year ended 31 December 2011.

GRI compliance

The Global Reporting Initiative ("GRI") is a non-profit organisation promoting economic sustainability. The GRI provides all companies and organisations with a comprehensive sustainability reporting framework, widely recognised within the mining industry and adopted by the International Council of Mining and Metals ("ICMM") as part of its sustainable development framework.

The Group first adopted a strategy for gradual alignment with the requirements of the GRI in its 2006 Sustainability Report and has built on this commitment with each new report.

The content in this Report was prepared to Application Level B of reporting under the latest version of the GRI guidelines.

Materiality and scope

The areas addressed in this Report relate to key sustainability issues encountered during mine exploration, development, construction and operation in Russia.

The structure, outline, and content of the Report were guided by the HSE Committee in accordance with the Group's core values and commitments, as set out on page 7.

The Report reflects sustainability performance indicators used internally to measure and monitor performance year-on-year.

Feedback from Group shareholders and stakeholders was used to determine key areas for inclusion in the Report.

Company shareholders wishing to obtain an overview of the Group's approach to key sustainability issues are the primary audience for the Report. As a result, it may be possible that some issues are not covered in the level of detail required by a particular stakeholder group. Stakeholders are encouraged to contact the Company for further information or clarification.

The Report covers Group subsidiaries which are directly under the control of the Group's HSE Committee. IRC Limited, the Group's 65.6% owned subsidiary listed on the Stock Exchange of Hong Kong Limited, has an independent Board of Directors which oversees its sustainable development policies and programmes. Consequently, IRC Limited and its subsidiaries are not included in this Report and references to "the Group" should be taken to exclude IRC Limited and its subsidiaries, with the exception of certain financial data, which is inclusive of IRC. An overview of IRC's commitments to sustainability may be obtained from their website, www.irccgroup.com.hk

Assurance

The quality of the Report was assured by independent consultants, Wardell Armstrong International.

Our Business

Who we are and how we operate

- Four hard-rock gold mines and alluvial operations
- Mines developed in-house, ambitious growth projects delivered on schedule
- Major regional employer and contributor to the local economy
- Strong commitment to local communities and employee welfare
- A responsible approach to HSE issues

Pioneer

The Group's flagship mine and one of the largest mines in Russia.

530 us\$/oz

Total cash costs at Pioneer in 2011 were down 3% from 2010



 For more on Pioneer see pages 51 to 53 of the Annual Report 2011

Pokrovskiy

The Group's first mine is set to become the site of a new POX processing hub in 2013.

1.6 Moz Au

Gold produced from Pokrovskiy to date



 For more on the POX hub and Pokrovskiy see pages 44 to 50 of the Annual Report 2011

Malomir

Acquired as a greenfield site, it was commissioned in 2010, despite its remote location in the north-east Amur region.

143%

Increase in production at Malomir compared to 2010



 For more on Malomir see pages 54 to 55 of the Annual Report 2011


Albyn

Albyn is one of the Group's most prospective projects, with exploration continuing to yield positive results.

2.24 Moz Au

Total Mineral Resources at Albyn, increased 22% versus 2010



 For more on Albyn see pages 56 to 57 of the Annual Report 2011

Our Strategy

Our mission is to become one of the leaders of the global gold mining industry using innovative technologies, operating responsibly and in line with international best practice to deliver superior shareholder returns and sustainable growth.

Experience

A comprehensive model of efficient mine development and a robust approach to employee welfare, community engagement and HSE issues has evolved over 18 years of operating in the Russian Far East

Expertise

The Group is proud of its operational and scientific expertise including its robust approach to HSE issues, which it is striving to align with best industry practices

Talent

The knowledge and experience of local, industry-leading experts is supplemented by a long-term policy of investing in education and training to ensure this culture continues

Exploration and R&D

Core focus on exploration and the development of innovative processing technologies ensures sustainable growth against the global decline in new discoveries



See page 10 of Annual Report 2011 for more on the Group's strategy

Our Values and Commitments

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 and commitments.

Approach to sustainability

The Board of Directors appointed a HSE Committee to advise the Board on the management of sustainability issues. As part of its remit, the HSE Committee reviews the Group's strategy towards health, safety, environmental, community relations and employee welfare issues (collectively "Sustainability Strategy") annually, taking into consideration the Group's identified HSE and human resource risks. The last review of the Group's Sustainability Strategy took place in Q1 2012.

Following this review, the HSE Committee agreed that the Group's overall Sustainability Strategy should remain unchanged from previous years.

The HSE Committee developed the Group's Sustainability Strategy into a statement of its values and commitments, which set out its approach to sustainability issues and will underpin the Group's approach to sustainability over the coming year.

Petropavlovsk's values and commitments

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

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

In its management and its operations, Petropavlovsk is committed to:

- Full compliance with the legislation of the Russian Federation;
- A rigorous approach to health and safety, underpinned by close scrutiny by the Board and management. The Group's objective is to minimise the risk of accidents and of occupational illness, and to aim for zero fatalities. All accidents are recorded, and all serious accidents are investigated;
- A rigorous approach to environmental standards, implemented both through internal compliance measures and through expert external auditing and monitoring;
- Provision of appropriate and high-quality training for its employees and opportunities for career development;
- Investment in initiatives to support education in the regions where the Group operates;

– Promotion of the social and economic development of these regions both through the widening scope of the Group's operations and with the assistance of the Petropavlovsk Foundation for Social Investment;

– An active dialogue with local communities and local and regional authorities to maintain a transparent two-way flow of information and to sustain long-term, constructive relationships;

– Fair and supportive management, with appropriate procedures in place for handling disputes and grievances; and

– Zero tolerance of bribery and corruption and strict compliance with the relevant legislation of the Russian Federation and the United Kingdom.

International Performance standards

In line with its commitment for transparent sustainable development, Petropavlovsk is aligning itself with international standards and codes of practice to ensure the high standard and

integrity of its operations and to enable its stakeholders to compare its operations with its peer group.

Cyanide Code

The Group is aligning its cyanide usage with the procedures of the International Cyanide Management Code ("ICMC"). This approach will complement the existing procedures regarding the handling, storage and management of cyanide which the Group currently has in place.

IFC Performance Standards

The International Finance Corporation ("IFC") has been a shareholder in the Company since 2005 and regularly reviews the Group's operations. The Group seeks to work to IFC Performance Standards.

ICMM Principles

The International Council on Mining and Metals ("ICMM") requires all its members to implement a sustainable development framework and set up accountable and transparent reporting procedures. Petropavlovsk is striving to align its current operations with ICMM's principles.

Our Action Plan and Risks

The Group recognises that certain risks may pose a threat to its strategy and its sustainable values and commitments. The identification and evaluation of key risks within a formal risk management framework ensures that appropriate management controls are in place.

Risk management

The Board and its appointed Risk Committee, consisting of both Executive and Non-Executive Directors, has responsibility for on-going risk review and management within a formal risk management framework. Risks, which are considered by the Directors as having the potential to impact the business, are considered in a number of broad categories with responsibility for each category delegated to a "risk owner" within the Executive Committee. Each risk owner is responsible for identifying key risks in their risk area and the most significant risks are recorded in risk registers. The likelihood of occurrence and potential impact

to the Group is assessed and mitigating controls which seek to remove or minimise the likelihood and impact of the risks before they occur are implemented.

HSE risks have been assigned their own category in line with the importance the Group places on HSE matters. The Deputy Chief Executive and Technical Director was assigned the overall responsibility of risk owner for this category as he works closely with mine management on a day-to-day basis. Human resources risks are defined as risks associated with the recruitment and on-going management of people and are assigned to the Chief Executive.



The Report of the Risk Committee: pages 76 to 87 of the Annual Report 2011

HSE risks

| Risk | Description and potential impact | Mitigation | Additional information |
|--|--|--|---|
| Failures in the Group's health and safety processes and/or breach of health and safety legislation. | <p>The Group's employees are one of its most valuable assets. The Group recognises that it has an obligation to protect the health of its employees and that they have the right to operate in a safe working environment. Certain of the Group's operations are carried out under potentially hazardous conditions. Group employees may become exposed to health and safety risks which may lead to the occurrence of work-related accidents and harm to the Group's employees. These could also result in production delays, reputational damage and financial loss.</p> <p>During 2011 amendments to the Russian Labour Code changed the previous "principles" based OH&S measures approach for enterprises within the Russian Federation to a mandatory one. A breach of which could result in fines, penalties and reputational damage.</p> | <p>Health and safety management systems are in place across the Group to ensure that operations are managed in accordance with relevant health and safety regulations and requirements.</p> <p>The Group has an established health and safety training programme under which all its employees undergo initial training on commencement of employment and take part in refresher training on an annual basis.</p> <p>The Group implemented a range of additional measures during the year as a result of three fatalities in 2010 in order to minimise the risk of accidents and improve accident response, including additional and enhanced technical measures at all sites and the provision of further occupational, health and safety training.</p> <p>The Group operates a prompt incident reporting system to the Executive Committee and the Board.</p> <p>Board level oversight of health and safety issues occurs through the work of the HSE Committee.</p> <p>Internal policies have been updated to combine State legislation with the Group's internal policies to ensure compliance with new legislation.</p> | Please see pages 15 to 17 for an overview of health and safety management procedures. |
| The Group's operations require the use of hazardous substances including cyanide and other reagents. | Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community. | Cyanide and other dangerous substances are kept in secure storage with limited access only to qualified personnel with access closely monitored by security staff. The Group is aligning itself with principles of the ICMC. | Please see page 36. |

Human resources risks

| Risk | Description and potential impact | Mitigation | Additional information |
|-------------------------|---|--|--|
| Lack of skilled labour. | The Group sources its skilled labour within the geographies in which it operates, avoiding the need for higher expatriate labour costs. As the scale of the Group's operations increases, it may experience a shortage of skilled labour which may make it difficult to execute its business plans and/or lead to operational inefficiencies. | <p>The Group has a long standing programme of investing in education in the regions in which it operates to ensure a constant supply of well qualified specialists for the Group's operations.</p> <p>In response to the challenges of moving from a small-scale mining operation to a more complex multi-mine operation, additional investment continues to be made in training (including expansion of the Pokrovskiy Mining College) and recruitment to improve operational efficiencies.</p> | Details of the various educational programmes are set out on pages 18 to 19. |

Sustainability Action Plan

The Group has adopted a rolling Action Plan to outline the steps it needs to take in order to adhere to its sustainable values and commitments and mitigate its HSE Risks. The Action Plan is reviewed annually by mine management and the Group's HSE Committee and is set out below:

Sustainability action plan

| Operation | 2011 | 2012 | 2013 | 2014 |
|--------------------------------|---|--|--|--|
| Corporate | <p>Development of corporate HSE and community relations management systems in line with the expansion of the Group.</p> <p>Sustainability Report produced to GRI Guidelines.</p> <p>Review of mine closure planning procedures.</p> | <p>Development of corporate HSE and community relations management systems in response to the planned expansion of the Group.</p> <p>Sustainability Report produced to GRI guidelines.</p> | <p>Development of corporate HSE and community relations management systems in response to the planned expansion of the Group.</p> <p>Sustainability Report produced to GRI guidelines.</p> | <p>Development of corporate HSE and community relations management systems in response to the planned expansion of the Group.</p> <p>Sustainability Report produced to GRI guidelines.</p> |
| Pokrovskiy/ Pioneer | Implementation of ICMC requirements. | Implementation of ICMC requirements. | Implementation of ICMC requirements. | Mine closure plans approved by authorities. |
| Malomir | Implementation of Environmental Management System ("EMS") and dam safety assessment. | Implementation of ICMC requirements. | <p>Implementation of ICMC requirements.</p> <p>Development of mine closure plans.</p> | Mine closure plans approved by authorities. |
| Albyn | Environmental and Social Impact Assessment ("ESIA") prepared in parallel to permitting. | Implementation of EMS. | Implementation of ICMC requirements. | Development of mine closure plans. |

Sustainability Management and Governance

The Company's Board of Directors, Executive Committee and key operational management underpin the Company's strategic objective to continue to develop the Group sustainably and responsibly and to ensure the safe and efficient running of its operations in line with its values and commitments.

The HSE Committee

The Board of Directors has appointed committees at board level to oversee different aspects of the Group's business, risks and performance. The HSE Committee is responsible for establishing and reviewing the Group's health, safety environmental and community relations ("Sustainability") strategy, evaluating the effectiveness of the Group's policies and systems for managing Sustainability issues and risks and assessing the performance of the Group with regard to the impact of Sustainability decisions and actions.

The Committee's Terms of Reference also include:

- establishing and reviewing the Group's health, safety, environment and community relations strategy, performance and compliance with legal and regulatory requirements;
- advising the Board on the international industry best practice and regulatory requirements on health, safety, the environment, social and community relations issues within the Company and risks associated with these issues;
- monitoring the quality of reporting of HSE, social and community relations issues to the Company's shareholders and stakeholders.

During 2011, the Committee met six times and operated in accordance with its Terms of Reference.

The Executive Committee

The Board has appointed an Executive Committee, consisting of both Executive Directors and key operational management, and has delegated to this Committee responsibility for overseeing the implementation of the Group's strategy, business targets and the decisions made at Board level, including decisions made by the HSE Committee. The Executive Committee is also responsible for reviewing internal control and risk management. The Executive Committee meets regularly.

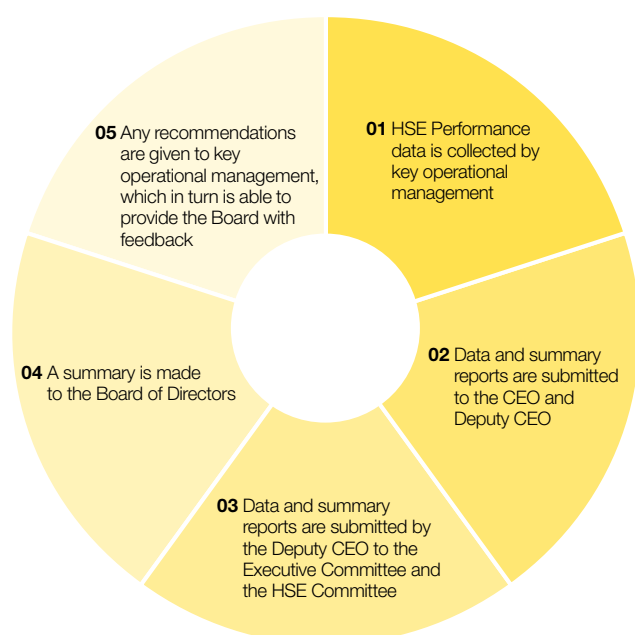
Corporate Governance

The Board is committed to high standards of corporate governance. The Board believes that good governance is fundamental to the success of the Company and to its relationship with its key stakeholders. The Company is currently in compliance with the UK Corporate Governance Code (the "Code") which was adopted by the Financial Reporting Council to replace the Combined Code for accounting periods of Premium Listed companies commencing on or after 29 June 2010 with one exception. Further details of the Company's compliance with the Code and its approach to Corporate Governance can be found in the Corporate Governance Report in the accompanying 2011 Annual Report. The Report also includes details of the evaluation of the Board and its Committees and how the Company engages with its shareholders.

Remuneration and the Remuneration Committee

The Board has appointed a Remuneration Committee consisting solely of Non-Executive Directors to review the performance of the Executive Directors and senior executives and determine their remuneration and conditions of employment, paying due regard to the interests of shareholders and the performance of the Group.

Structure for the monitoring and reporting of Sustainability Performance data



A Russian management team

As a Russian company, almost the entire Group workforce, including operational management, are Russian nationals. Consequently, management and staff are in tune with the particulars of mining in Russia, including Russian mining legislation. This knowledge is complemented by the international experience of the Group's Chairman, Deputy CEO and Non-Executive Directors. The Group is proud of its experienced and strong management team, many of whom have been with the Group since inception.

The Department of Industrial Safety and Auditing

The Department of Industrial Safety and Auditing (the "Department of ISA") was created within the Management Company Petropavlovsk, the Group's centralised operating company, to ensure that HSE measures, including occupational health and safety and environmental monitoring and permitting, are integrated across all the Group's operations and managed in accordance with the Group's policies and Russian legislation.

The Department of ISA is comprised of three sub-divisions:

- The Industrial Safety and Labour Protection department, which oversees health and safety systems across Group operations and regulatory and legal compliance;
- The Subsoil Use Administration, which oversees the organisation of subsoil use and licence requirements; and
- The Environmental Audit and Monitoring department, which oversees environmental protection systems across Group operations and conducts internal audits and HSE inspections.

The Department of ISA holds an annual HSE conference at the start of each year. The purpose of the conference is to discuss the results of the past year and to set targets for the following year, to discuss ways of implementing new controls, to familiarise all participants with HSE legislation of the Russian Federation and to share ideas.

Managing and monitoring HSE performance

Petropavlovsk is committed to a rigorous approach to environmental, health and safety issues at its operations, underpinned by regular reporting to the Board of Directors and close scrutiny by the Board and management. In line with this commitment, a reporting structure has been set up to ensure the Board is kept informed of the Group's HSE performance.

All incidents are recorded and all serious accidents are investigated, in order to achieve the Group's objective of minimising the risk of accidents and occupational illness, and to aim for zero fatalities. The Group has adopted a systematic approach to maintaining environmental standards, implemented both through internal compliance measures and through expert external monitoring.

HSE performance data is submitted to the HSE Committee for review prior to each Committee meeting. All Directors are encouraged to make further enquiries, as they feel appropriate, with the Executive Directors or management. The HSE Committee has the authority to invite key operational management to meetings to discuss the performance of the Group or its subsidiaries. The HSE Committee encourages key operational management to provide feedback on whether its HSE policies are achievable and/or realistic within the given timeframes.

HSE performance data forms part of a monthly operations report which is submitted to the Executive Committee for review ahead of each meeting.

IRC

The Group owns 65.6% of IRC Limited, a company listed on the Stock Exchange of Hong Kong Limited with assets in the Russian Far East and north-eastern China. IRC Limited has its own Board of Directors which oversees its sustainable development policies and programmes, however, as Petropavlovsk has retained a majority stake in IRC, information on IRC's HSE procedures and statistics are provided to the Petropavlovsk HSE Committee for reference and any subsequent concerns are raised with IRC's HSE Committee as appropriate. As IRC's HSE performance falls under the remit of its own HSE Committee, IRC HSE performance is not included in this report.

Dealing with bribery and corruption

The Company has a zero tolerance approach to bribery and corruption and all employees are expected to act professionally, fairly and with integrity in their business dealings at all times. In order to ensure that the Company has appropriate policies to comply with the new legislation introduced under the Bribery Act 2010, which came into force on 1 July 2011, the board has established an Anti-Bribery Committee which is chaired by the Chairman of the Company. The Committee has adopted policies and procedures and has provided training on the new legislation to employees in both Russia and London. The Committee provides regular reports to the Board, Risk Committee and the Executive Committee on the status of the Company's compliance with its anti-bribery policies.



The Directors' Remuneration Report on pages 108 to 120 of the accompanying Annual Report 2011 outlines the remuneration policy and contains full details of Directors' emoluments

For further details of how the Department of ISA supports the Group's health and safety management and policies, see page 15 of this report

For the Company's Corporate Governance Report see pages 99 to 107 of the Annual Report 2011



Log on to the Company's website, www.petropavlovsk.net, to view Board Committees' Terms of Reference

Managing our Current Workforce

01



- One of the largest employers in the Amur region
- Competitive wages, higher than regional average
- Quality on-site and off-site housing offered
- Access to a union to support workers' interests
- Circulation of a corporate newspaper to inform and engage



Petropavlovsk's employees are the Group's most valuable asset and have been instrumental in its success to date. Since inception, the Group has strived to be an employer of choice, attracting and retaining employees by offering competitive remuneration, high quality equipment and training, good living conditions and opportunities for career development. Petropavlovsk recognises that its future success is dependent on attracting and retaining a motivated workforce that will uphold its values and deliver its strategy.

The Group endeavours to employ people local to its operations. Almost all the Group's employees, including operational management, are Russian nationals.

In line with Russian legislation, all employees are issued with a contract stipulating their working hours, paid annual leave allowances and other employee guarantees provided by Petropavlovsk.

As with previous years, there were no incidences of industrial action in 2011.

Wages

The Group's average employee remuneration is a competitive 30,000 Roubles per month, higher than the average wage in the Amur region.

Equal opportunities

In accordance with Russian law, the Group is committed to providing equal opportunity for individuals in all aspects of employment.

The Group gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Should existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

The Group maintains a policy to provide equal pay and career opportunities regardless of gender across its operations. Women have an equal opportunity to reach the highest levels of the Group, including senior management and Board positions. As of 28 March 2012, the Board and the Executive Committee are comprised of 15% and 20% of women respectively.

Training

The Group is committed to providing high-quality job specific training, task and safety briefings to ensure worker safety.

All employees are trade tested and suitably qualified for their roles.

The Group hosts regular internal technical conferences, providing forums for employees to exchange experiences and to create a learning culture. The Group organises training programmes and seminars led by prominent experts. Regular training is provided by specialist equipment providers to ensure continuous development of skills and expertise.

Shift patterns

The Group has established a shift pattern whereby employees work and stay on-site for either a fortnight or month, subsequently benefitting from the same amount of time off-site with their families, once their shift is complete. Due to the remote location of the Pioneer, Pokrovskiy, Malomir and Albyn mines from the regional capital in Blagoveschensk, this shift pattern is key to allowing employees to maintain their family commitments, and also ensures the mines operate 24 hours a day, 365 days of the year.

Housing

Whilst employees are on-site at the Group's operations, they are provided with suitable living arrangements in purpose-built accommodation blocks, which are all equipped with modern conveniences, canteens and sports and leisure facilities.

The Group provides apartments to employees with special housing needs, such as families with large numbers of young children.

01 Employees at the Group's pilot test plant in Blagoveschensk
The facility enables the Group to replicate processing on a smaller scale, which can lead to significant cost and energy savings.

Managing our Current Workforce continued

Average number of employees

The Group's average number of employees for the year was 13,385, however by the end of the year more than 14,000 people were on the payroll.

The rapid expansion of the Group has led to the Group's average number of employees more than doubling since 2008. Key factors driving this expansion include the acquisition of IRC in April 2009, the commissioning and expansion of the Pioneer and Malomir mines, the commissioning of the Albyn mine and the expansion of IRC's projects through the commissioning of its Kuranakh mine.

The Group understands the need to ensure that new employees have the necessary skills it requires. As such, the Group is committed to supporting regional education and training programmes.

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 employees every four years, the trade union committee handles a wide range of issues and seeks to improve employees' wellbeing on and off-site.

Through their membership in the trade union, employees are offered subsidies and discounts on holidays for themselves and their families, as well as assistance with accommodation and financial support for young families.

The trade union committee holds regular consultation meetings and frequently reviews the Group's 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.

Employee communications

As a large and geographically dispersed organisation, the Group has always recognised the importance of communication with its employees. 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 different operations. The Group maintains a policy of providing employees with information about the Company and regular meetings are held between management and employees to facilitate the exchange of information and ideas.

The Group regularly conducts employee satisfaction surveys to ascertain their views on the Group's management and operations, levels of remuneration, working conditions / hours and career development opportunities. Such a survey was conducted in 2011.

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.

The Group has circulated a free monthly internal newsletter since 2006, and launched a quarterly corporate magazine in December 2010. The content of these publications includes corporate and operational updates, management and employee profiles, as well as regional information reflecting the extent of the Group's operations across different areas. To promote participation in the publication, employees are encouraged to submit suggestions to management directly or through the use of suggestion boxes, located in close proximity to key operational areas.

| | Consolidated average number of employees |
|---|--|
| 2011 | 13,385 |
| 2010 | 11,789 |
| 2009 | 7,766 |
| 2008 | 6,544 |
| 2011 breakdown of the average number of employees | |
| Precious metals operations | 6,670 |
| IRC | 2,226 |
| Other Group subsidiaries | 4,489 |
| Consolidated | 13,385 |

"Other" is defined as employees working in the Group's technical services and R&D support base.

01 Accommodation at Albyn

Commissioned in Q4 2012, Albyn became the Group's fourth hard-rock gold mine. As at its other three mines, the Group offers quality on-site accommodation facilities which are equipped with the latest modern conveniences.



Commitments

Occupational health and safety ("OH&S") in the workplace is one of the Group's key priorities.

The Group is committed to:

- Providing a safe working environment for all its employees;
- Ensuring full compliance with the legislation of the Russian Federation;
- Minimising the risk of accidents and occupational illness, and aiming for zero fatalities; and
- Providing high quality, task-specific training.

All equipment and materials used in the construction of the Group's operations are designed to safety specifications to be resilient to changes in temperature and atmospheric pressure.

All the Group's employees are suitably qualified for the tasks that they conduct.

The Group operates a zero tolerance policy towards alcohol at its sites and failure to wear the appropriate Personal Protective Equipment ("PPE") is a disciplinary offence.

Health and safety management

The Department of Industrial Safety and Auditing (the "Department of ISA") was appointed to ensure OH&S measures and environmental monitoring and permitting are integrated across the Group's operations and managed in accordance with the Group's policies and Russian legislation. In connection with this mandate, the Department:

- Ensures the relevant task-specific PPE is provided and worn;

- Provides continuous in-house OH&S training, supported by external workshops or training if necessary;
- Ensures job-specific briefings are conducted at each of the Group's operations;
- Provides an analysis of accidents, incidents and injuries; and
- Develops recommendations for the prevention of accidents, incidents and injuries.

The Department of ISA conducts health and safety audits of the Group's operations on a regular basis. The Department has the authority to enforce sanctions, including internal fines, for identified breaches. Failure to wear appropriate PPE or follow appropriate HSE procedures is considered a serious offence which may result in disciplinary, or even legal, action. Audit reports record any breaches in regulations and include recommendations for eliminating further infringements. These are then discussed with management at the relevant operations. Eight sites were audited in 2011 and actions are being taken to eliminate the identified breaches.

Further specialist sub-divisions, reporting to the Department, oversee the organisation and management of OH&S across Group operations. This structure was designed to ensure that OH&S is monitored consistently across all sites.

The Department of ISA held its annual conference on labour protection, industrial and environmental safety in Q1 2012. Key operational management, external experts and government representatives were invited to attend. The aim of the 2012 conference was to encourage open discussion on OH&S issues, set targets for the year ahead and build on the accident-reduction measures taken in 2011.

Compliance with labour laws

Petropavlovsk is committed to full compliance with Russian legislation, of which the most significant is the Labour Code of the Russian Federation. Additional rules, standards and regulations include:

- State Labour Safety System Standards;
- State sanitary-epidemiological rules and standards;
- Integrated safety rules;
- Rules of installation and safe operation; and
- Labour protection regulations.

The Department of ISA has updated Group policies to fully reflect the new requirements of the Russian Labour Code regarding OH&S management systems, plant supervision and the management of hazardous substances. Guideline material was provided to all operational management for implementation.

In line with the Russian Labour Code, a review of labour protection in the workplace is conducted once every five years.

The results of this evaluation are used to:

- Identify factors which are harmful to employees' health;
- Provide employees with appropriate PPE; and
- Deliver planning and financing measures to improve OH&S management.

There were no legal prosecutions as a result of OH&S violations in 2011.

On-site medical facilities

There are medical facilities and medically trained staff on duty at all the Group's hard-rock gold mines and helicopters and ambulances are available for emergency evacuation to hospitals. All medical staff undergo regular training and knowledge testing. All sites have developed accident response plans.

Funding for OH&S initiatives

Financing for OH&S programmes has increased year-on-year, reflecting the expansion of the Group.

| 2011 | 164 million Roubles |
|------|---------------------|
| 2010 | 112 million Roubles |
| 2009 | 89 million Roubles |

External audits

In addition to internal audits conducted by the Department of ISA, external auditors visit the Group's operations to review OH&S policies and procedures and make appropriate recommendations to the HSE Committee. Government authorities also visit all Group operations regularly to inspect OH&S procedures and documentation.

Communicating with employees

All staff have the opportunity to raise concerns regarding OH&S with senior management. Additional initiatives have included the installation of a "telephone hotline" which can be used by employees to report any violations and suggest improvements.

Handling cyanide

The Group uses cyanide-based technology to extract gold. The Group recognises that cyanide may be harmful to people and to the environment if not properly handled.

The Group has strict existing procedures for the handling of cyanide and is seeking to align these with the International Cyanide Management Code.



Turn to page 36 for more details on cyanide handling procedures

Accident reporting

The Group has developed systems which are designed to ensure that all accidents are recorded and all serious accidents are investigated. This data is then subject to close scrutiny by senior management, the Executive Committee, the HSE Committee and the Board to ensure adequate health and safety measures are in place. Following an accident, the Department of ISA conducts a review with staff to discuss how it may have been prevented.

Accidents in 2011

Following three fatalities in 2010, the Group reacted promptly to introduce additional measures to minimise the risk of accidents and improve accident response. These have included enhanced technical procedures, an improved first aid response and the provision of further training with greater emphasis on "refresher" training, after analysis indicated that many incidents involved experienced

operators. As one of the 2011 fatalities was caused by electrocution, the Group now provides relevant employees with portable sound and light alarms to detect the presence of electric fields.

As at 31 December 2011, Petropavlovsk had recorded 29 lost time accidents and the Lost Time Injury Frequency Rate ("LTIFR") for the 2011 was 1.86 accidents per 1 million man hours worked, a significant reduction from 3.00 in 2010. There were no on-site fatalities in 2011 compared to three in 2010. This decrease in both LTIFR and fatalities was achieved despite the increase in the average number of employees and the challenge of implementing OH&S procedures at new project sites.

Of the 29 lost time accidents recorded in 2011, 28 were categorised as minor and one was categorised as major, which occurred at the Pioneer mine in January 2011. Regrettably, an excavator operator suffered a serious head injury as a result of a falling rock from the pit wall. Subsequently, the employee made a full recovery and returned to work. An investigation into the accident revealed that the operator was not wearing PPE and other standard procedures were not followed. This resulted in appropriate disciplinary action.

Analysis of accident data during 2011 revealed that many accidents occurred due to poor work organisation, including failure to wear PPE. In response, further measures were implemented, including regular briefings for all staff and employee workshops. The majority of minor accidents were 'slips and trips' and similar incidents.

During 2011, there was an increase in the number of 'group' accidents, i.e. involving more than one employee. However, these resulted in only minor injuries and were all connected to traffic accidents. To prevent this, the Group is taking steps to ensure that all traffic regulations are clearly signposted on site. All site management are required to monitor driving standards, and to immediately report and investigate traffic violations irrespective of whether they resulted in an accident.

Diseases in 2011

The number of occupational diseases, as defined by Russian legislation, was zero in 2011.

The number of total recordable diseases, defined as any medical condition or ailment preventing work, was 4,611.

Focus on: health and safety management

Interview with Head of Occupational Health and Safety, the Department of Industrial Safety and Auditing



Alexander Davidenko
Head of Occupational Health
and Safety

Mr Davidenko graduated from the Politechnicheskiy Institute in Irkutsk (Russia), with a degree in Mining Engineering. Prior to working for the Group, he held a series of high-profile positions with leading open-pit and underground mining companies both in Russia and abroad. These roles provided him with "hands-on" experience of environmental, health and safety issues.

How seriously do you think Petropavlovsk takes the issue of health and safety?

OH&S in the workplace is one of the top priorities for our senior management, which is why a vertically-integrated structure was set up to oversee HSE.

Considering that your role involves conducting audits and, where appropriate, issuing fines, to what extent do you think employees value the work undertaken by your department?

Generally speaking, our work is very well received by management and mine staff alike. However, some employees do occasionally ignore OH&S procedures. For this reason, a large part of our job is to ensure that employees understand that OH&S procedures are there to protect themselves and their colleagues. If procedures are continually ignored, my colleagues and I are not afraid to follow up with disciplinary action or internal fines.

What aspects of your job do you enjoy / not enjoy?

My biggest satisfaction comes from lowering injury levels and the number of health and safety violations. Obviously, dealing with a fatality or serious injury is always hard.

Going forward, what is your biggest challenge in health and safety management?

As we grow, it is vital that OH&S continues to be managed effectively. We recognise that we need to build on our previous work to ensure our staff are aware that not following appropriate OH&S procedures can be dangerous for themselves and those around them.

- Commitment to provide safe working conditions and appropriate task-specific training
- Safety reporting through to Board level
- Commitment to thoroughly investigate all serious accidents
- Reduction in the Lost Time Injury Frequency Rate notwithstanding Group expansion
- Zero fatalities across all projects in 2011

Health and safety performance indicators 2009 – 2011

| | 2011 | 2010 | 2009 | comments |
|--|-------------------|------------|------------|---|
| 1 Number of hours worked | 15,581,200 | 15,019,823 | 11,309,911 | Number increased in line with the Group's expansion. |
| 2 Number of man-days (number) | 1,537,028 | 1,516,921 | 1,134,311 | |
| 3 Number of occupational diseases | 0 | 0 | 0 | |
| 4 Total Recordable Diseases (TRD) | 4,611 | 5,223 | 4,113 | Number increased in line with increases in the Group's workforce. |
| 5 Number of hours lost as result of diseases | 556,316 | 550,977 | 434,986 | |
| 6 Total Recordable Diseases Frequency Rate (TRIFR) | 295.9 | 347.1 | 364.79 | |
| 7 Lost Time Injury (LTI) | 29 | 45 | 41 | Despite the increase in the Group's workforce, the number decreased due to improvements in OH&S (see above). |
| 8 Number of hours lost as result of LTI | 4,765 | 7,590 | 6,289 | |
| 9 Lost Time Injury Frequency Rate (LTIFR) | 1.86 | 3.00 | 3.80 | |
| 10 Violations of safety rules | 63 | 164 | 712 | Internal safety violations identified and internal fines issued – number decreased due to measures to improve the safety culture. |
| 11 Safety fines (number) | 5 | 31 | 132 | |
| 12 Safety fines (Roubles) | 73,000 | 124,500 | 58,910 | Despite fewer fines issued, the amount increased following an increase in the level of fines, intended to act as a deterrent. |
| 13 Legal prosecution for safety rules violations | 0 | 0 | 0 | The Group remains fully compliant with Russian Federation legislation. |
| 14 Health and safety education | 3,550 | 3,802 | 1,868 | The amount increased following Group expansion and the roll out of new OH&S procedures. |

Data has been restated to exclude data from IRC. See page 4 for explanation.

Going forward

Analysis of accident data in 2011 revealed that many employees were still failing to follow existing OH&S procedures. The Group is continuing to explore measures to address this, including increasing senior management's responsibility for OH&S.

Petropavlovsk management recognises that the Group's growth strategy could lead to a rise in the number of accidents or put a strain on existing OH&S procedures. The Group is continuously monitoring and updating its OH&S procedures accordingly.

In response to these issues, in 2012 the ISA Department is planning to improve standard guidelines and to develop additional measures to promote OH&S in the workplace. Internal audits will continue to be used to identify violations of safety procedures, followed by appropriate disciplinary action.



- 01 An employee conducting mineralogical analysis of rock samples.
- 02 Fire assaying at the central laboratory in Blagoveschensk, one of the Group's six state-accredited laboratories.

Sustaining our Future Workforce

Petropavlovsk has a long-standing programme of investment in educational projects and institutions in the regions where it operates. This programme enables the Group to mitigate human resource risks by supplying its operations with qualified personnel, which in turn helps individuals realise their full potential and encourages the development of the Amur region.

01 Start of the new academic term at the Pokrovskiy Mining College.



The Group recognises that one of the challenges faced by the global gold mining industry is a shortage of trained workers with the requisite specific skills. Petropavlovsk is no exception, particularly as the size and number of its operations increases and new technologies are implemented.

The Group seeks to mitigate this by consistent and focused investment in regional educational programmes. This approach ensures that the Group will be able to continue to promote its culture of innovation. In turn, this provides local people with career opportunities and improved prospects in regions with historically high levels of unemployment.

University collaboration and support

The Group is collaborating with two local higher education providers on mining and metallurgical programmes for their students.

One of these programmes is run in conjunction with the Amur State University to train future mine engineers through two new courses in mining and processing at the University's department of geology and mineral resources.

During 2011, the Group continued its collaboration with teaching staff at the Blagoveschensk State Pedagogical University on an advanced course in analytical chemistry for final year students. The course covers the theoretical analysis and practical work involved in metallurgical sample analysis. Practical training is run in Group laboratories, offering students first-hand relevant industry experience. Since the course was launched, many of the students have been offered employment within the Group.

Career development opportunities

The Group remains committed to broadening the qualifications of its employees to ensure they are trained to the highest standard and their career development opportunities are widened. In line with this commitment, 92 employees attended courses at, or received qualifications from, higher education institutions in 2011.

577 students

Graduated from the Pokrovskiy Mining College to date

- 92 employees attended higher education courses
- 577 students graduated from the Group's mining college to date
- College training tailored to the Group's HR needs
- Collaboration with the Amur State University
- Collaboration with the State Pedagogical University

Investment through the Petropavlovsk Foundation

Petropavlovsk believes that education plays a key role in promoting social and economic stability and improving the quality of life. As such, making education more available is one of the focus areas of the Petropavlovsk Foundation for Social Investment. In 2011, the Foundation invested a total of 5.7 million Roubles in programmes across all levels of education, 12 times more than in 2010.

The Pokrovskiy Mining College

Established in 2007, the Pokrovskiy Mining College is the first, and currently the only, private vocational college in Russia.

The college was the brainchild of Mr Sergey Ermolenko, Petropavlovsk's Chief Executive Officer, both to address the Group's human resources requirements, ensuring that future employees are trained up to best practice standards and to widen employment opportunities in the mining sector in the local area.

Most of the college intake comes from underprivileged, low-income or single-parent backgrounds.

During 2011, the college expanded to offer four additional courses. It now offers a total of 46 foundation and intermediate courses in mining and metallurgy covering a range of theoretical, research and practical work. The courses provide training for mine managers, laboratory technicians, electricians, drivers, mine machinery operators,

mechanics and other roles required by the Group. Each course is tailored in consultation with Group management to ensure that it is directly suited to the Group's human resources needs and the curriculum is updated annually to reflect the latest mining industry requirements. As part of this, the college is currently training future group technicians and shift managers to work at its pressure oxidation hub at the Pokrovskiy mine.

The college is equipped with 23 seminar rooms, lecture theatres and laboratories, a library, as well as good quality accommodation facilities for students, including a recreational area, canteen, a gym and sports facilities.

To date, 577 students have graduated from the college, and the majority have found employment within the Group.

The Group invested a total of 34 million Roubles in launching the college and continues to provide it with financial support.

The college's contribution to the development of the mining industry in the Russian Far East was recognised in 2011 when it was named Mining Education Project of the Year at the 7th Russian Mining and Exploration Forum, MINEX.

01



01 A chemistry class at the Pokrovskiy Mining College.

01



- Continued success of the Petropavlovsk Foundation
- c. 84 million Roubles in sponsorship and charitable donations in 2011
- Successful community consultations held ahead of commissioning the Albyn mine
- The Group remains one of the largest tax payers in the Amur region
- Continued support for the local Evenk community



01 Supporters on the sidelines at the Petropavlovsk open mini football tournament, a Group-sponsored event aimed at promoting fitness.

The Group is committed to promoting the social and economic development of the Amur region and improving the quality of life of its inhabitants, both by widening the scope of its operations and with the assistance of the Petropavlovsk Foundation for Social Investment.

An active, transparent dialogue

Maintaining good relationships with local communities and the local authorities is a key priority for Petropavlovsk. The Group engages with local communities and addresses their concerns throughout the lifetime of its operations. The Group is committed to ensuring that local communities and administrative bodies are actively involved in its development plans and that any concerns are adequately addressed in public consultations.

Supporting the Evenk community

The Evenks are an indigenous group inhabiting a large area of north-eastern Russia, including part of the Amur region.

The Petropavlovsk Foundation for Social Investment works with the Evenk Community Council to establish key sponsorship priorities in order to preserve the traditions and culture of this indigenous population. Since 2010, the Petropavlovsk Foundation has invested more than 690,000 Roubles in projects supporting the Evenk community, including the sponsorship of festivals and events which preserve the Evenk cultural heritage. The Group has also assisted in compiling a dictionary of the Evenk language.

The Evenk community is regularly employed to supply the mines with traditional food and other Evenk products in order to support their traditional way of life.

The Group's relationship with the Evenks and the local community is further strengthened through the continued employment of local workers.

Contributing to the development of the local economy

As one of the largest employers in the Amur region, the Group is committed to offering its employees competitive remuneration above the regional average.

The Group is a major tax payer in the Amur region.

The Group recognises that it plays an important role in the local economy and endeavours to use local businesses wherever possible to provide support services for its operations. The Group believes that sourcing locally assists the economic growth of the area and encourages small and medium-size business development, providing long-term sustainable benefits to the Amur region as a whole.

Our Community continued

01



01 A public consultation held ahead of the commissioning of Albyn.

Consultations at Albyn

In line with the Group's Action Plan for the year, two public consultations were held in June 2011 ahead of the commissioning of the Group's fourth gold mine, Albyn. The consultations took place in Ivanovskoye and Zlatoustovsk, the two villages located in the vicinity of the mine.

Community feedback survey

In March and April 2011, the Group conducted a poll in the local Blagoveschensk area, in order to receive feedback on the Group and improve the Group's future community engagement programmes.

Promoting Russian culture abroad

Petropavlovsk supports a number of cultural and charitable events in London aimed at re-enforcing the cultural ties between Russia and the UK, and promoting Russian culture and Russo-British relations.

Over the years, the Company has sponsored Russian film festivals, art exhibitions, Russian-language plays and other cultural events and programmes.

In 2011, for the fifth time, Petropavlovsk sponsored the Victory Day celebrations in London, in honour of Russian war veterans.

For the second year running, the Company sponsored the Maslenitsa Festival in London, a free family-oriented festival featuring Russian folk artists, popular performers, crafts and traditional food.

During 2011, the Group was one of the main sponsors of the British Council programme marking the 50th anniversary of the first manned space flight. As part of this programme, a statue of Yuri Gagarin, the first man in space, was unveiled outside the British Council's London headquarters in the Mall. The British Council also hosted the 'Gagarin in Britain' exhibition in London, looking at Yuri Gagarin's life and the early Soviet space programme.

02 Chairman, Peter Hambro, and Strategic Director, Alfiya Samokhvalova, with the daughter of Yuri Gagarin at the opening ceremony of "Gagarin in Britain".

02



Focus on: community engagement

Interview with Head of Welfare and Community Liaison



Uliana Levanova
Head of Welfare and
Community Liaison

Ms Levanova was born in the Amur region in a small settlement not far from the Albyn mine. She graduated from the Blagoveschensk State Pedagogical University and the Khabarovsk Academy of Law and Economics.

Ms Levanova started working for the Group as a lawyer in 2004 and was appointed to her current role as Head of Welfare and Community Liaison in 2005.

In her current capacity, Ms Levanova facilitates communication between management and staff at Group operations, holding talks with employees to address concerns or issues and working closely with the trade union. She also oversees the publication of the Group's internal monthly newspaper. In addition, Ms Levanova works to maintain an on-going dialogue between Petropavlovsk and local authorities, communities, media, non-governmental organisations and charitable organisations.

Briefly outline your role with the Petropavlovsk

My role is twofold. Firstly, I act as a go between mine staff and management. Often issues arise when staff are not well informed, which is why my work with the corporate newspaper is so important: among other things, we publish articles on Group strategy and interviews with key management. In addition, I promote the Group's image in the Amur region, in particular with local communities. I liaise with local authorities, community leaders and groups to make sure that they know what we are doing and, more importantly, so that we understand what they would like us to do. Also, I manage our relationship with the local press and TV.

Do you enjoy your job? How is it important to you?

I really love my job – mainly because of the people I work with, both within and outside the Group. I love meeting and talking to people from local communities and the industry; I always learn a lot from them. My job is so varied – I rarely do the same thing twice in a week.

What was your highlight of 2011?

It was a busy year for us as Albyn came into operation. We held a number of important, and very successful, public meetings with communities close to the mine to address their concerns.

What do you see as your biggest challenge in 2012 and beyond?

When I moved into this role in 2005 the Group only operated one mine – Pokrovskiy. Now we are operating four mines in the Amur region. This means that the number of communities local to our operations has also increased. The challenge for us is to ensure that we continue to maintain the same level of dialogue with all these communities and with the local media despite the rapid increase in the size of the Group.



01 A cultural event, sponsored by the Foundation, which was held in an Evenk village close to the Albyn mine.

02 Members of the swimming club Aquias Sport, which is sponsored by the Foundation. The club is based in the Amur region and regularly competes in national and international cold water swimming competitions.

The Petropavlovsk Foundation

The Petropavlovsk Foundation for Social Investment (“the Foundation”) was set up in 2010 and has since donated more than 107 million Roubles to charitable causes in regions where the Group operates.

The Foundation aims to contribute to, encourage and stimulate the sustainable socio-economic and cultural development of the areas in which the Group operates in the Russian Far East. This involves the responsible promotion of social investment in the regions where the Group operates, including the support of educational and cultural programmes. In turn, it is envisaged that this will improve the quality of life of local inhabitants, ensure that the Russian Far East is an attractive area to live and work in and encourage investment in the region.

Formation

The Foundation was launched in 2010. Prior to the establishment of the Foundation, the Group’s charitable work was organised at subsidiary level. With the expansion of the Group into a multi-mine operator, it was envisaged that the consolidation of existing charitable work into one investment vehicle would ensure that funds are better targeted to the best causes.

Targeted activities

The Foundation’s investment activities are grouped under six priority areas: education, child development, culture, sport, quality of life and programmes aimed at encouraging socio-economic development in the Russian Far East through investment in local R&D institutions.

Collaboration

The Foundation works closely with local and national government authorities and institutions, ensuring that the funds are well-targeted and increasing the power of the Foundation as a vehicle for change. In addition, the Foundation also collaborates with the Russian Orthodox Church, the Cossack Culture Centre of the Amur region, a regional youth initiative supporting International Students’ Day (Tat’arin Den’), the Scientific Institute for Development of Modern Ideology and other organisations.

Management

The Foundation is governed by a Management Board which includes Petropavlovsk’s Honorary President, the Head of Welfare and Community Liaison and the Deputy Chairman of the Government of the Amur region.

01 Second division football match with Petropavlovsk-sponsored club, FC Amur-2010. In 2011, the team’s home game fixtures were attended by a record number of supporters.



- Streamlining Group charity work into one investment vehicle
- Programmes aimed at improving the quality of life and socio-economic development
- c. 84 million Roubles invested in charitable programmes in 2011
- 107 million Roubles donated since the Foundation was set up
- Working closely with local organisations to achieve goals

The main role of the Management Board is to ensure that the Foundation achieves its goals. In line with this objective, its responsibilities include: defining priority areas of activity, approving programmes reflecting the Foundation strategic objectives, reviewing and approving the Foundation's annual plan, budget and any substantial changes to it and reviewing and approving the Foundation's Annual Report and balance sheet.

The Management Board is overseen by a Board of Trustees, which exercises control over the Foundation's activities, provides assurance of its performance, monitors the use of its funds and ensures that the Foundation's work remains in full compliance with relevant legislation. The Board of Trustees comprises of the Chief Executive Officer of Petropavlovsk PLC, the Governor of the Amur region, a Deputy of the State Duma, a Member of the Public Chamber of the Russian Federation, the Chairman of Petropavlovsk PLC and a senior representative of the Russian Orthodox Church.

Funds spent in 2011

During 2011, the Foundation spent approximately 84 million Roubles, more than three times the amount spent in 2010 (23 million Roubles).

The increase in the Foundation's expenditure reflects the increase in the scope of its work as the Group expanded into new communities with the development and commissioning of new projects. As the Foundation was set up in 2010, this increase also reflects its first full year contribution and its development.

Priority areas and programmes in 2011

Education

The Foundation's educational programmes are aimed at supporting higher education institutions and institutions offering vocational courses in the Russian Far East, with a particular focus on the development of an educational base for young professionals, the provision of research grants and providing educational support to Group employees and their children.

The Foundation is working closely with the Amur State University, The Government of the Amur region and the Blagoveschensk State Pedagogical University on several educational programmes.

2011 programmes

During 2011, the Foundation invested a total of 5.7 million Roubles in education programmes, nearly 12 times the amount spent in 2010 (0.5 million Roubles). The funds provided financial support for two local higher education institutions, as well as for schools, libraries and cultural centres. Projects included:

- New textbooks, a new fire alarm system and furniture for local schools, libraries and cultural centres;
- Distance learning facilities for the Birobidzhan educational centre for disabled children;
- Educational facilities for Evenk children;
- Three grants to individual students in need of financial support;
- New equipment for the Blagoveschensk State Pedagogical University;
- Furniture and equipment for the Museum of Mineralogy and Geology at the Amur State University. The Foundation is intending to support the acquisition of additional fossil samples for the museum collection in the near future; and
- Support for a conference commemorating the 300th anniversary of the birth of the great Russian scientist Mikhail Lomonosov.

| Programme | Funds spent in 2011 (million Roubles) | Funds spent in 2010 (million Roubles) |
|-------------------------------|---|---|
| Education | 5.7 | 0.5 |
| Child development | 6.4 | 2 |
| Culture | 25.9 | 15 |
| Sport | 16.2 | 1 |
| Enhancing the quality of life | 27.9 | 1.6 |
| Development initiatives | 8.5 | 3 |

Figures may not add up due to rounding. Table excludes some maintenance costs.

The Petropavlovsk Foundation continued

Child development

The Foundation's child development programmes are aimed at improving the quality of life of children in the Russian Far East, with a particular focus on children from underprivileged backgrounds or with medical conditions which affect their quality of life.

2011 programmes

6.4 million Roubles were allocated by the Foundation for child development programmes in 2011 (more than triple the amount spent in 2010). Projects included:

- Refurbishment of local childcare centres, nurseries and schools;
- Support for orphans or children from disadvantaged backgrounds;
- A children's drawing competition; and
- Support for a centre in Birobidzhan for young boys aged 11 to 13 from challenging backgrounds.

Culture

The aim of the Foundation's cultural programmes is to promote cultural activities and develop cultural awareness in the Russian Far East.

Programmes include organising and supporting cultural events or festivals, supporting local cultural institutions, such as libraries, and promoting cultural services, including the publication and distribution of books.

The Foundation focuses particularly on supporting activities which are either unique to, or promote the culture and heritage of the Russian Far East. To this end, the Foundation works with the local indigenous Evenk community, local cultural institutions and organisations, and the Russian Orthodox Church.

2011 programmes

In 2011, Petropavlovsk increased its financial support for cultural programmes from 15 million Roubles (2010) to 25.9 million Roubles (2011). Projects included:

- Continued support for Evenk cultural programmes;
- Renewed sponsorship of the theatre and cinema festival *Amur Osen*;
- Financial support for the archaeological excavation of the Albazino fortress; and
- Renovation of the library at the Moscow Ecclesiastical Academy.

Sport

The Foundation runs programmes to promote health and fitness, strengthen or develop local sports organisations and promote physical activity.

Programmes include sponsoring local athletes or sports teams and assisting in the organisation of local sporting events.



01



02

01/02 In 2011, the Foundation sponsored and organised five different artistic contests. The competitions saw entries from a wide spectrum of residents from across the Amur region.

2011 programmes

16.2 million Roubles was allocated for sports projects run by the Petropavlovsk Foundation in 2011. Projects included:

- Renewed sponsorship of the regional football team; and
- Sponsorship of seven regional sporting competitions, including events aimed at children and young people.

Enhancing quality of life

The Foundation aims to directly improve the quality of life for some of the most disadvantaged groups in the Amur region. This involves working with municipal and local authorities to strengthen healthcare and other services, provide housing and improve the quality of existing housing. The Foundation also works on local environmental projects and provides financial aid to individuals in need.

2011 programmes

In 2011, Petropavlovsk spent 27.9 million Roubles on a number of projects falling under this category. This was considerably more than in 2010 (3 million Roubles). These projects included:

- Refurbishment of a sports and social club in the village of Tokur, close to the Albyn mine;
- Provision of equipment for local medical centres; and
- Targeted financial assistance for individuals.

Developing the Russian Far East

The Foundation runs programmes aimed at increasing the economic potential of the region by supporting local design teams, research institutions or institutions engaged in activities specific to the Russian Far East.

2011 programmes

In 2011, the Foundation invested 0.95 million Roubles in programmes supporting the development of the Russian Far East. These programmes included:

- The publication of books and collaboration with national media to promote awareness of the Russian Far East;
- The publication of books and collaborations with national media to promote awareness of the Russian Far East; and
- Programmes aimed at supporting regional journalism in the Russian Far East.

Focus for 2012

The Foundation will continue to provide financial support to programmes for each of its six key priority areas in 2012.

Specific on-going programmes include:

- Continued financial support of local schools, hospitals and childcare centres;
- Continued financial support for the archaeological excavation of the Albazino fortress; and
- Renovation of the library in the Moscow Ecclesiastical Academy, which houses the largest collection of theological and ecclesiastical literature in Russia and the CIS.



01 Children in Ivanovskoye, a largely Evenk village close to the Albyn mine.

The Environment

01



Effective environmental management has always been a priority for Petropavlovsk and the Group is committed to a rigorous approach to upholding the highest environmental

standards. This is reflected by the Group's good environmental record since its first processing plant was launched ten years ago.



Environmental monitoring and auditing

The Group's commitment to a rigorous approach to environmental management is reflected in the range of measures it has implemented to monitor and control discharges to air, soil and water, protect biodiversity and manage the reagents and chemicals it uses. Monitoring data is collated on a regular basis by the Environmental Audit and Monitoring Department ("EAM Department"), a subdivision of the Group's centralised Department for Industrial Safety and Auditing. Samples collected are examined in the Group's laboratories, which are accredited by the state.

The Group is working to ensure that the quantity and toxicity of its industrial emissions, discharges and waste meet acceptable levels. The Group is developing and using advanced technologies, equipment and materials to reduce consumption of natural resources.

External audits and on-site reviews are conducted by environmental auditors.

The importance of the Group's environmental commitment is also reflected by the close involvement of its executives: an environmental report is prepared on a monthly basis for the Executive Committee and presented at each Board meeting. The report includes the results of environmental monitoring across Group subsidiaries and information on documentation or controls set up during the period.

Environmental data is submitted to the HSE Committee prior to Committee meetings.

Russian environmental legislation

In accordance with Russian legislation, Petropavlovsk holds licences for each of its operations. The terms of the licences limit the use of natural resources and safeguard the environment. Ensuring compliance with licence conditions form a key part of the Group's environmental management system. The Group recorded no violations of licence conditions in 2011.

The Group manages its operations in line with stringent Russian environmental legislation. Monitoring data is closely analysed by the Russian authorities to confirm compliance. In 2011, the Group's operations continued to comply with Russian legislation regulating discharges to air, water, soil, tailings and waste management.

The EAM Department oversees environmental safety management and compliance with licence agreements and other legal requirements across Group operations.

An environmental impact assessment report ("OVOS" report) is required by Russian legislation as part of the mining permitting process. The report evaluates the current state of, and estimated impact on, groundwater, rivers and streams, mineral resources, land, soil, air and plant and animal life in the area. Russian legislation requires these areas to be monitored regularly throughout the life of the mine.

In line with Russian legislation, the Group holds the following permits:

- Licences for subsoil use;
- Agreements for water use;
- Licences for the handling of class I-IV hazardous waste;
- Permits regulating the discharge of emissions in the atmosphere;
- Certificates of accreditation for Group laboratories;
- Exploration, construction and mining permits; and
- Certificates of environmental safety in hazardous waste management.

Alignment with international standards

The Group is going beyond a legal compliance-based approach to environmental management by aligning its current practices with internationally recognised standards, such as the International Cyanide Management Code.

Representatives from the International Finance Corporation, a shareholder in the Company, visit the Group's operations annually to monitor its commitments to environmental standards.

Petropavlovsk is working towards ISO 14004 Certification on a voluntary basis.

The Environment continued

Environmental incidents

| | Number of violations | | |
|--------------------------------------|----------------------|-------|--------|
| | 2011 | 2010 | 2009 |
| Category 1 – minor | 195 | 93 | 75 |
| Category 2 – considerable | 0 | 0 | 6 |
| Category 3 – serious | 0 | 0 | 0 |
| Licence violations | 0 | 0 | 0 |
| Environmental fines (number) | 0 | 2 | 6 |
| Total amount of fines paid (Roubles) | 0 | 7,000 | 96,000 |

Supplementing its compliance-based approach, the Group has adopted a grading system for environmental incidents based on their potential or real impact, from 1 for minor incidents to 3 for the most serious.

During 2011, there was an increase in Category 1 environmental incidents. This has been attributed to the broadening of Group operations, as the Albyn mine was commissioned and the Malomir mine was significantly expanded during the year. By contrast, there were no Category 2 and 3 environmental incidents.

The increase of Category 1 accidents remains a concern for the Group and measures as to how this figure could be decreased were widely discussed at the Department of ISA's annual HSE conference, held during the first quarter of 2012.

Focus on: the environment

Interview with Head of Environmental Safety



Vera Usova
Head of Environmental Safety

Ms Usova grew up in a village near the Siberian city of Ekaterinburg. She moved to the Russian Far East after finishing her education at the Isovsky Geological College and the Vakhrushev Mining Institute.

Ms Usova is a qualified geologist and environmental expert. She joined the Group in 2001 and is now Head of Environmental Safety.

Ms Usova's work has been noted by the government of the Amur region who awarded her a Certificate of Merit for "long-term, consistent work and creditable services to environmental protection" in 2003.

Ms Usova has published two Russian-language books on environmental protection in gold mining.

Can you briefly outline your role at Petropavlovsk? Who else is in your department and what do they do?

My department is a subdivision of the Engineering Department, which is supervised by the Chief Engineer, Valery Alekseev. There are eight other environmental experts currently working under my supervision. Each expert has their own area of responsibility. In addition, there are four divisions (Waste, Air, Water and Engineering and Environmental Survey) where staff closely monitor changes to environmental legislation, and ensure their timely introduction at our operations.

What work do you do on a typical day? How does your work vary on a day-to-day basis?

Our operations are spread across Russia so, when, for example, my working day in Blagoveschensk is coming to an end, work is only just beginning in the Moscow or St Petersburg offices. My typical day normally starts with checking e-mails, solving urgent problems, classifying any requests and

assigning tasks to relevant members of staff. Then we normally have a brief meeting to discuss current issues and tasks. Afterwards I usually move on to my work at our operations, liaising with mine management, the authorities and the public.

Do you enjoy your job? Why? How important is your work to you?

I love my job as it enables me to make a difference in an area I feel passionately about. Our operations improve the quality of life in some of the most remote areas in the Russian Far East, but as a consequence these areas become less remote and rural. It is important that, as far as we can, we try to strike a balance between developing Russia's natural resources, creating jobs and generating local wealth, and trying to protect the environment from industrial harm.

What was your highlight of 2011?

The most memorable event of 2011 for me was the commissioning of our fourth mine, Albyn.



01 A bear living in an area close to the Malomir mine.

02 The Pokrovka-1 pit at the Pokrovskiy mine.

Responding to Russian legislation

Monitoring a mine's potential impact on biodiversity begins before the mine is operational. As part of the OVOS report preparation, the Group is required to outline how the mine could impact biodiversity and the measures it intends to take to limit this. In addition, there are a number of Russian laws and environmental requirements designed to protect wildlife and local habitats and to limit the impact of industrial operations on plant and animal life.

In response to this, Petropavlovsk has developed a set of administrative and technical measures, including:

- Preventing pollution and minimising its environmental impact;
- Minimising noise levels as far as possible;
- Minimising and controlling the disposal of food waste which could attract wildlife;
- Use of “cat’s eye” road reflectors and other wildlife deterrents near areas close to moving vehicles, as well as warning signs to remind drivers to be aware of wildlife in the area;
- Monitoring discharges to air, soil and water;
- Use of nets and bird scarers on the tailings dams; and
- Ensuring land already cleared for mines and supporting mine infrastructure is put to maximum use.

In order to protect flora and fauna and to avoid contamination of local rivers, ponds or streams, the following activities are prohibited:

- The felling of trees and the clearing of wooded areas using heavy machinery, such as bulldozers;
- The flooding of forest land;
- Dumping waste or rubbish;
- Fishing, hunting or poaching; and
- Driving vehicles outside designated zones or off existing roads.

Avoiding forest fires

Large parts of the Amur region are wooded and thus forest fires could quickly spread if not managed adequately, with potential devastating effects on wildlife and local communities. In response to this, the Group conducts regular fire safety briefings. All sites have a fire engine and trained fire fighters. Mine managers are responsible for regular monitoring to ensure compliance. Appropriate fire response procedures are in place and fire drills are run regularly.

Rehabilitation

To date, the Group has not decommissioned any mines. However it is the Group's intention to ensure that after decommissioning, the landscape will be restored as far as possible to its original state.

All operating mines are subject to an on-going rehabilitation programme which is compliant with regulatory requirements. As part of the initial OVOS permitting process, closure plans for operating mines are prepared and are updated as the mines approach the end of their operating lives.

Managing our Waste and Resources

The Group is committed to using its resources efficiently and managing its waste safely and responsibly. As gold mining uses chemicals which can be potentially hazardous, the Group is committed to the responsible management of the reagents it uses.

The Group is working to minimise the quantity and toxicity of industrial emissions, discharges and waste and to develop and use advanced technologies, equipment and materials to reduce consumption of resources.

Waste management

In compliance with Russian legislation, a waste management programme is agreed with regulatory authorities and implemented at all Group operations. The programme outlines waste disposal standards and stipulates limitations on waste produced, detoxified, disposed or received from other parties. Data on waste is collected and logged in registers. This data forms part of the overall monitoring information which is supplied to local authorities annually for their review.

Water consumption

Petropavlovsk is committed to reducing its water consumption.

In accordance with Russian legislation, all Group operations hold licences setting water usage quotas, which must not be exceeded.

In order to reduce water consumption, the Group's operations use water recycling (pit drainage systems and sump pits) and recycled water (reused water from tailings dams and backfill thickener) supply. Ore processing plants use intermediate thickening of technological pulp which allows maximum internal water recycling. Nearly all technological processes are run using recycled water. These measures reduce the amount of water extracted from local sources.

Storage of oil and fuel

The Group recognises that the chemicals it uses may harm the environment if control and handling procedures are inadequate. In compliance with regulatory requirements, oil, petrol and kerosene are stored to prevent leakages and spillages and to diminish the risk of fires.

Water use

| | | 2011 | 2010 | 2009 |
|--|----------------|------------|------------|------------|
| Consumption of untreated water (technical) | m ³ | 5,621,827 | 4,751,694 | 1,655,634 |
| Recycled water | m ³ | 19,966,888 | 17,388,119 | 12,507,252 |
| Water discharge | m ³ | 1,497,385 | 2,114,597 | 2,358,400 |

Materials consumed

| | | 2011 | 2010 | 2009 |
|--|--------------------|------------------|-----------|-----------|
| Total rock mass excavated | 000 m ³ | 57,559 | 34,769 | 14,564 |
| Waste rock | 000 m ³ | 48,963 | 28,995 | 12,915 |
| Ore processing | 000 t | 11,982 | 9,886 | 3,769 |
| Through Group resin-in-pulp plants | 000 t | 7,449 | 5,936 | 2,878 |
| Through Group heap-leaching facilities | 000 t | 1,223 | 1,028 | 814 |
| Reagent (type) | | | | |
| sodium cyanide | t | 5,7234 | 4,116 | 1,938 |
| caustic soda | t | 1,426 | 1,393 | 920 |
| paraform | t | 227 | 177 | 51 |
| quicklime | t | 6,951 | 5,417 | 2,586 |
| sulphuric acid | t | 1,069 | 1,043 | 1,026 |
| thiourea | t | 258 | 243 | 238 |
| ion-exchange resin AM-2B | t | 161 | 140 | 54 |
| Lubricating materials (oils) | l | 2,918,903 | 2,473,227 | 1,347,533 |
| Lubricating materials (grease) | kg | 160,370 | 161,756 | 66,534 |
| Explosives | t | 25,144 | 16,823 | 7,290 |
| incl. igdanit | t | 5,470 | 5,844 | 3,923 |
| ammonium nitrate | t | 3,976 | 5,404 | 3,725 |
| diesel fuel | t | 246 | 394 | 197 |
| grammonite 79/21 | t | 407 | 849 | 0 |
| ammonite 6JV | t | 528 | 411 | 177 |
| emulsolite | t | 3,746 | 4,327 | 1,967 |

Introducing POX technology

Introducing POX technology

The Group is developing a pressure oxidation ("POX") processing hub at its Pokrovskiy mine. The hub will use a combination of heat and pressure to oxidise the gold bearing sulphide minerals from ores which are resistant to conventional cyanide leaching (so-called "refractory" ores). This type of ore contains arsenic, which needs to be disposed of in an environmentally responsible way.

One of the reasons the Group chose POX technology for its new processing hub was that it is more environmentally-friendly than the comparable BIOX® process.

Arsenic, which is normally present in refractory ores and concentrates in the form of arsenopyrite (FeAsS), is a hazardous waste component which requires special anti-contamination measures to ensure safe disposal. Disposal of arsenic waste products is strictly regulated by both Russian and international environmental legislation.

The POX process converts the majority of arsenopyrite into scorodite (FeAsO₄·2H₂O), which is insoluble in water, hence it is the safest form of arsenic for disposal. In contrast, the BIOX® process produces tailings with a higher concentration of water-soluble mobile arsenic which is more hazardous, even after the additional treatment required before it can be disposed of into a tailings dam.



Pollution Prevention and Control

Environmental protection is a key priority for Petropavlovsk and the Group is taking necessary measures to reduce or avoid pollution.

Russian legislation

According to Russian Federation environmental legislation, all legal entities which have fixed sources where polluting substances are discharged into the air are obliged to keep an inventory of substance emissions and parameters regulating emission levels are set. In accordance with this legislation, Petropavlovsk is required to implement effective measures to minimise air pollution and reduce ground-level concentrations of harmful substances to an acceptable level.

Preventing pollution

The Group undertakes the following measures to minimise localised pollution:

- Development and use of purification systems, anti-dust equipment and other protective facilities preventing the discharge of harmful substances into the environment;
- Centralized collection and safe disposal of waste;
- Purification of pit water before discharging it in accordance with licence requirements;
- Building mining dumps in locations which minimise their environmental impact;
- All emission points, such as laboratories, crushing sites, boiler houses, and smelters are equipped with gas purifying equipment, which is monitored on a regular basis; and

- All technical equipment and vehicles are checked according to the maintenance schedule to ensure that they fully comply with all requirements.

The Group conducts regular monitoring to ascertain the state of, and estimated impact on, groundwater, rivers and streams, soil, air, plant life and animal life. Samples are collected and analysed in the Group's laboratories, which are state-accredited.

Monitoring throughout the life of the mine

A thorough analysis of background environmental conditions is performed before any industrial activity commences, and licence areas are monitored in accordance with the programmes approved by authorised state bodies. State environmental bodies approve the annual limits for emissions and waste generation.

Environmental monitoring is conducted from the exploration phase through to operation and will include post-closure when applicable. Control parameters depend on the specific industrial activity at each operation and monitoring is carried out in accordance with schedules which are approved by the local state authorities.

Atmospheric pollution

Air quality monitoring, including the monitoring of carbon monoxide levels and dust emissions, at Group operations is carried out on a quarterly basis in accordance with mining and environmental monitoring programmes agreed in advance with state environmental authorities. Data is uploaded to the database and included in a report, which is submitted annually to the local authorities.

2011 monitoring data at Group operations identified average indicators were within permissible limits. Based on long-term records, no significant environmental changes have been identified at Petropavlovsk's operations.

Volatile organic compounds

Small amounts of volatile organic compounds ("VOCs") are released into the atmosphere from the combustion of fuel by vehicles and boiler houses. The Group is not subject to emission limits for VOCs.

Climate change

The Group recognises the importance of addressing climate change and is aspiring to review the risk climate change poses to its operations.

Energy consumption

The Group's overall energy consumption has increased year-on-year. This can be attributed to the expansion of the Group as it commissioned new mines and expanded existing projects.

During 2011, the Group implemented a set of measures at the Pioneer mine designed to reduce costs and energy consumption. These measures included the use of mobile canteens and measures to prevent bottlenecks at the site. Due to the success of the programme, the Group plans to implement these measures at its three other hard-rock mines.

The Group's electricity supply is predominantly from the national grid. There are four hydro-electric power stations in the Amur region.



02



01 An aerial view of land surrounding Malomir mine.

02 An employee conducting chemical analysis at the central laboratory in Blagoveschensk.

Energy use

| | Unit | 2011 | 2010 | 2009 |
|---|----------------------|------------|------------|------------|
| Electricity | thous. kW*h | 4,445,190 | 260,470 | 143,963 |
| Diesel fuel | t | 88,406,304 | 59,125,387 | 41,856,740 |
| Kerosene | l | 141,525 | 24,940 | 4,384 |
| Natural gas | t | 0 | 0 | 0.00 |
| Gasoline | t | 1,406,843 | 1,239,668 | 1,215,378 |
| Emissions of greenhouse gases: gasoline | t CO ₂ -e | 3,255 | 2,868 | 2,812 |
| Emissions of greenhouse gases: diesel | t CO ₂ -e | 193,519 | 153,199 | 108,454 |

This table has been calculated in accordance with Russian regulatory requirements.

Cyanide Management



01 The RIP plant at Pioneer.

02 The tailings pond at Pioneer.

Gold is extracted at Petropavlovsk's four hard-rock mines using a conventional cyanide-based process.

In addition, Petropavlovsk operates a pilot test plant facility in Blagoveschensk. All residue and waste from this facility is disposed of at a dedicated, fully approved tailings management facility, located outside the city.

The Group recognises that if a tailings dam were to fail, it could have a major impact on the local environment. As a consequence, cyanide and other dangerous substances are stored securely and access is limited to fully-qualified personnel. Access to these areas is closely monitored by security staff, and security procedures are reviewed on a monthly basis.

Cyanide management

Measures currently employed by the Group to monitor and manage cyanide include:

- Special sensors, monitoring the presence of cyanide compounds at the Group's processing plants. If high concentrations are detected, supply-and-exhaust ventilation is automatically turned on;
- To prevent cyanide spillages, handling and transportation are carried out in line with strict security requirements. Only authorised personnel are allowed to transport cyanide and all transportation is logged;
- Cyanide is stored in locked guarded warehouses with concrete floors;
- Tailings dams are designed to be water tight and are monitored on a regular basis.

The International Cyanide Management Code

In addition to these measures, Petropavlovsk is aligning its use of cyanide with the International Cyanide Management Code ("ICMC").

In 2009, Petropavlovsk appointed an independent external consultant, Golder Associates, to conduct a gap analysis audit of the use of cyanide at its operations, which were, at that point, Pokrovskiy and Pioneer. The report concluded that Petropavlovsk's cyanide management systems are comprehensive and compliant with Russian regulations. However, Golder Associates did recommend a number of relatively minor changes to bring operations in line with the ICMC requirements. These included running medical and environmental emergency response drills, further measures to protect specified wildlife, the rigorous enforcement of current health and safety protocol, workforce cyanide awareness training, and various procedures concerning 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 and that there was clear evidence that the improvements recommended by the 2009 audit are being implemented at Pokrovskiy and Pioneer.

Dam safety assessment at Malomir

During 2011, the Group completed an assessment of the tailings dam at Malomir. The assessment process analysed the design, construction and operation of the tailings dam.

This report was produced to Application Level B of the guidelines of the Global Reporting Initiative (“GRI”).

It should be noted that as this report is sent to shareholders together with the Annual Report 2011, some indicators may cross-reference the Annual Report 2011.

Further information on the GRI guidelines, including definitions of the indicators used in the tables below, may be found on the website, www.globalreporting.org

Disclosures on Management Approach (“DMA”)

DMA EC (Economic Management Approach): see the Annual Report 2011.

DMA EN (Environmental Approach): details may be found on pages 28 to 36 of this Report.

DMA PR: (Product Responsibility Management Approach): Petropavlovsk’s main product is semi-refined intermediate gold

product, which is further processed by third-party refineries, thus typical product labelling marketing does not apply.

DMA LR (Labour Practices and Decent Work Management Approach): the Group has based its approach on compliance with the law of the Russian Federation; all relevant aspects are appropriately regulated. Details may be found on pages 12 to 17 of this Report.

DMA HR (Human Rights Management Approach): the Group has based its approach on compliance with the law of Russian Federation; all relevant aspects are appropriately regulated.

DMA SO (Society Management Approach): See pages 20 to 26 of this Report.

See page 38 for GRI Indicators table.

GRI Indicators continued

Sustainability Report 2011

| Section | GRI content | Pages |
|---|---------------------------------|----------|
| Inside front cover | Organisational profile | N/A |
| Chairman's Statement, Statement of the Chairman of the Health, Safety and Environmental Committee | 1.1 | 02, 03 |
| Approach to Reporting | 3.1, 3.3, 4.12, 4.15, 4.16 | 04 |
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| Our Strategy | 2.6, 4.8, 4.12 | 06 |
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| Pollution Prevention and Control | EN3, EN16, EC2 | 34, 35 |
| Back cover | 3.4 | N/A |

Annual Report 2011

| Section | GRI content | Pages |
|---|---|------------|
| Inside front cover | Organisational profile | N/A |
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| Directors' Report | 2.2, 4.3, 4.6, SO6 | 92 to 98 |
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| Directors' Remuneration Report | 4.5, EC3 (in relation to senior management) | 108 to 120 |
| Back cover | 2.1 | N/A |

Petropavlovsk Assurance Statement

The Petropavlovsk 2011 ‘Sustaining Future Performance’ (SFP) Sustainability Report has been prepared by the management of Petropavlovsk who are responsible for the collection and presentation of information in the report.

Scope

Wardell Armstrong International (WAI) has been appointed to prepare an assurance statement and, in accordance with Petropavlovsk management’s instructions, was asked to review the following:

1. The processes in place to identify and prioritise sustainability issues during the reporting period.
2. The implementation of policies, reporting and management systems relating to these issues and information reported in the 2011 SFP Sustainability Report.
3. The Corporate and selected head office and site systems for data collection processes relating to requirements of conformance with Global Reporting Initiative (GRI) G3 guidelines including the GRI Mining and Metals Sector supplemental indicators as reported to meet Application Level B requirements.

Our assurance work scope covered all the Petropavlovsk operations defined by the reporting boundaries of the 2011 SFP Sustainability Report. The work involved selective reviews of documents and interviews at London and Blagoveschensk offices and site visits to:

- Albyn Mine
- Malomir Mine
- Pokrovskiy Mine
- Pioneer Mine

Key findings

Based on our review of its scope and limitations:

- Nothing has come to our attention which causes us to believe that the information reported by Petropavlovsk, in the 2011 SFP Sustainability Report has been materially misstated.
- Nothing has come to our attention to cause us to believe that the Petropavlovsk self declared application Level of B, in relation to its reporting against the GRI G3 Sustainability Reporting Guidelines, is materially misstated.

Methodology

Through document reviews and interviews at the selected sites and head office, the work activity involved a review of:

1. Petropavlovsk policies.
2. Processes in place to identify and prioritise sustainability risks and opportunities at corporate and site level during the reporting period and the results of the identification and prioritization process.
3. Systems and approaches that Petropavlovsk is using to manage its identified material sustainability risks and opportunities.

Petropavlovsk Assurance Statement continued

4. Procedures for the collection and assimilation of GRI G3 reported performance information involving:

a. An assessment of the risk of misstating reported information for quantitative indicators reported. The assessment looked at site level reported performance data for GRI indicators and considered materiality in the context of corporate level reported information. On this basis certain indicators were selected for verification activities at the selected sites. The assessment methodology was based on ISO 31000:2009, Risk management – Principles and guidelines.

b. A review of data reporting, collection and consolidation processes at Head Office.

5. Statements made in the 2011 SFP Sustainability Report regarding Petropavlovsk sustainable development processes and achievements in 2011. This involved management interviews and documentation reviews in support of corporate level reported information.

6. Review and selective testing for accuracy of qualitative statements made in the sustainability report.

7. Assessment of the self declared application level of reporting against the GRI G3 Sustainability Reporting Guidelines and the Mining and Metals Sector Supplement Final Version 2011 – self declared at the B Level.

Limitations of the work performed

This work has been carried out by checking examples of information and documents that have been made available during the period of assurance activity by Petropavlovsk.

Data and information provided that has been deemed to be independently verified by other third parties has been considered to be appropriately verified, and was not subjected to re-verification by WAI. However, WAI has used its best efforts to satisfy itself that the information is reliable and from an appropriate source.

Our evidence gathering procedures have been designed to obtain a limited level of assurance on which to base our conclusions.

The assurance statement provided by Wardell Armstrong is not intended to be used as advice or as the basis for any decisions, including, without limitation, financial or investment decisions.

Statement of independence

The independence of our team has been reviewed and none of the WAI assessors involved in this project presents a conflict of interest to the integrity of this assurance statement.

Standard applied to this engagement

International Standard on Assurance ISEA3000 (revised) – Assurance Engagements other than Audits & Reviews of Historical Financial Information issued by IIAASB.

Wardell Armstrong International Ltd.



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Further information



Additional information on the
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Additional information on IRC
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