PETROPAVLOVSK

PRESS RELEASE

28 March 2018

Petropavlovsk PLC

Annual Results for the Year Ended 31 December 2017

Petropavlovsk PLC ("Petropavlovsk" or the "Company" or, together with its subsidiaries, the "Group") today issues its audited annual results for the year ended 31 December 2017.

Chairman Comment

Commenting on the annual results, Ian Ashby, Chairman of Petropavlovsk, said:

"In 2017 Petropavlovsk delivered on its strategy in 2017 of increasing production, generating positive cash flow and optimising our debt profile, whilst making considerable progress operationally both at the POX Hub and with the commencement of our higher grade underground operations at Pioneer and Malomir. We enter 2018 in a strong position to complete the transition to a miner capable of harnessing the significant latent value of our assets, and committed to generating strong returns for all of our stakeholders for many years to come."

Financial Highlights

- **Gold sales up 10%** to 439.8koz (2016: 399.9koz).
- **Average realised gold price♦ up 3%** to US$1,262/oz (2016: US$1,222/oz) includes US$2/oz positive effect of hedging.
- **Group revenue** up 9% to US$587.4m (2016: US$540.7m), primarily reflecting 10% increase in physical volume of gold sold and 3% increase in average realised gold price♦.
- **Underlying EBITDA♦ in line with 2016** at US$196.8m, (2016: US$200.1m) driven by higher gold sales at an increased price, but impacted by higher costs.
- **Group total cash costs♦ (TCC) up 12%** to US$741/oz (2016: US$660/oz) due to the effect of RUB appreciation, inflation of certain RUB denominated costs and lower processing recoveries and grades, partly compensated by a 2017 mining tax concession and increased production.
- **Group all in sustaining costs♦ (AISC)** increased 19% to US$963/oz (2016: US$807/oz) mainly as a result of the increase in sustaining capital expenditure in relation to Pioneer and Malomir underground projects, expansion of the Pioneer and Albyn tailings dams, ongoing near mine exploration, prospective stripping at Albyn and Malomir and an increase in central administration expenses.
- **Threefold increase in net cash from operating activities** to US$124m (2016: US$37m), primarily due to a decrease in working capital.

Note

♦ Throughout this document, when discussing the Group's financial performance, reference is made to a number of financial measures, known as Alternative Performance Measures (APMs), which are not defined or calculated in accordance with IFRS. Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.

- **Operating profit♦ up 45% at US$111.9m (2016: US$77m).** While underlying EBITDA♦ remained at approximately the same level as in 2016, the Group's operating profit was positively affected by partial reversal of previously recognised impairment losses at the K&S mine recorded by the Group's associate IRC, which contributed US$40.3m to the US$35.2m share of results of associates recognised by the Group.
- **Profit for the period was US$41.5m in 2017** compared to US$31.7m in 2016. This reflects an increase in operating profit and includes a benefit of US$34.6m of capitalised interest (2016: US$nil), partially offset by US$29.2m effect of deferred taxation (including the foreign exchange effect on deferred tax due to appreciation of the Rouble against the US Dollar)
- Management of the Company and IRC has approached ICBC to request an amendment of the repayment schedule and to obtain waivers in respect of obligations to comply with certain financial covenants. Management is also in advanced discussions regarding the full refinancing of the ICBC facility with an alternative lender. The Group has guaranteed the outstanding US$234 million principal IRC owes to ICBC under the ICBC Facility. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is a key element of the Group's overall going concern assessment.
- **Capital expenditure♦** of US$88.1m (2016: US$29.4m), primarily reflects recommencement of the development of the Pressure Oxidation Hub ("POX Hub") (US$33.2m), exploration activities (US$21.9m), flotation at Malomir (US$8.1m) and exploration and development activities to support underground mining at Pioneer and Malomir (US$15.5m), expansion of tailing dams (US$7.4m)
- **Reduction in year-end Net Debt♦** by US$14m to US$585m (31 Dec 2016: US$599m)
- **Improved debt capital terms, maturity and cost** following the successful issuance of US$500m 8.125% guaranteed notes, with net proceeds used to repay loans provided by Sberbank and VTB Bank.
- A gold sales agreement with Gazprombank, for a total volume of 96koz and for advance payment for up to 12 months signed to allow for greater flexibility in managing working capital of the Group. Advances will be settled using proceeds at the prevailing gold price at the date of the shipment.

Operational Highlights

- **Gold production up 10% at 439.6koz**, in line with full year company guidance. This was due to a strong performance at Pioneer and Albyn, as well as implementation of a resin treatment facility to improve operational efficiencies, specifically reducing the amount of gold-in-circuit (GIC) thus adding to a total gold output (2016: 400.2koz)
- **c.6% Increase (before depletion) in the Group's Total Mineral Resources** of 1.17Moz across the Group's assets, resulting in Total Group Mineral Resources of 20.86Moz (of which 8.15Moz are Ore Reserves).

Note

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

	Units	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Total gold produced[(1)]	koz	**439.6**	400.2
Gold sold	koz	**439.8**	399.9
Total Cash Costs♦ (TCC)	US$/oz	**741**	660
All In Sustaining Costs♦ (AISC)	US$/oz	**963**	807
Average realised gold price♦	US$/oz	**1,262**	1,222
Revenue	US$m	**587.4**	540.7
Underlying EBITDA♦	US$m	**196.8**	200.1
Profit for the period	US$m	**41.5**	31.7
Basic earnings per share	US$/share	**0.01**	0.01
Capital expenditure♦	US$m	**88.1**	29.4
Net debt♦	US$m	**(585.1)**	(598.6)

(1) From the beginning of 2017, the Company moved to using gold poured as the definition for production. The amount of GIC as at 31/12/2017 was c.22koz (31/12/2016: c.91koz). Comparable 2016 gold production numbers are adjusted accordingly

Development Highlights

- **Pressure Oxidation Hub (POX Hub):** full scale POX plant development on schedule for Q4 2018 commissioning and ramp up to commercial production throughout 2019
- **Malomir flotation (stage 1 / 3.6Mtpa):** plant is expected to be commissioned in Q2, with first concentrate production shortly thereafter
- **Underground:** development substantially completed at Pioneer and Malomir during the year, both underground mines are now fully operational

2018 Outlook

- **Production:** 2018 gold output is forecast between 420-460koz
- **Costs:**
  - TCC♦ guidance of US$700-750/oz, based on a RUB:US$ exchange rate of 58
  - AISC♦ is expected to be US$800/oz - US$850/oz decrease compare to 2017 primarily due to lower underground sustaining expenditure, lower sustaining exploration cost and slightly lower administrative costs
- **Capex♦:** estimated at US$105m, including
  - c.US$62m for POX
  - c.US$6m for Malomir flotation and tailings
  - c.US$10m for underground development
  - c.US$12m for Pioneer and Albyn tailings
  - c.US$15m for exploration activities
- **Malomir flotation:** plant expected to be commissioned in Q2 2018, with first concentrate production shortly thereafter

Note

♦ Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.

- **Hedging:** outstanding forward sales totalling 400Koz of gold at an average price of US$1,252 per ounce were outstanding as at 31 December 2017 and outstanding forward sales totalling 350Koz of gold at an average price of US$1,252 per ounce are outstanding as at 27 March 2018.

Corporate Strategy

Petropavlovsk's strategy is to leverage the Company's substantial refractory gold resource base whilst optimising its non-refractory resources. The focus remains on producing profitable gold ounces, maximising cash generation from operating mines and enhancing open pit production, with a gradual ramp up of higher grade underground operations at Pioneer and Malomir. The POX Hub, which remains the top priority for management in 2018, is at the heart of the Group's growth prospects.

Capital Markets Day

Petropavlovsk is planning an institutional capital markets day in London during Q2 2018. The event will focus on technical aspects of the Company's flagship POX Hub development project and will include presentations from industry experts, both internal and external. A presentation will be made available on the Company's website following the event, full details of which will be circulated in due course.

IRC Limited (IRC)

Petropavlovsk is a shareholder (31.1%) of IRC and is the guarantor of the US$340m project finance facility (US$234m principal outstanding, as at 31 December 2017). IRC is a vertically integrated iron ore producer and developer in the Russian Far East and North Eastern China, listed on the Hong Kong Stock Exchange (Ticker: 1029.HK).

The following selected summary is extracted from **IRC Annual Results for the year ended 31 December 2017**:

Highlights

- Financials
  - Net profit of US$113.3m (31 December 2016: Net loss of US$18.2m)
  - Fivefold increase in revenue to US$109.3m (31 December 2016: US$16.5m)
  - Cash cost reduced by 12% to US$48.4 per tonne (31 December 2016: US$55.0 per tonne)
  - K&S generated an EBITDA♦ of US$32.9m (31 December 2016: N/A, as K&S was not in commercial production)
  - Impairment reversal of US$129.6m following operational status and correction in market conditions
- Operations
  - K&S' production capacity of c. 50%; currently at about 70% and increasing
  - Sales volume increased 6 times to 1,539,146 tonnes (31 December 2016: 219,352 tonnes)
  - Average selling price doubled to US$78 per tonne (31 December 2016: US$39 per tonne)
  - K&S customer base broadened and diversified
  - Care and maintenance process at Kuranakh satisfactory

Note

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

Conference Call and Webcast

A live conference call and webcast will take place today at 9.00am BST. Participants will be able to listen to the call by dialling one of the following numbers shortly before 9.00am BST:

UK toll free number: 0808 237 0040
UK local number: +44(0) 203 428 1542
Russia toll free number: 810 800 2136 5011
Russia toll number: 0495 646 9304
Participant Password: 80669501#

A presentation will be webcasted and can be accessed via this link, from which a recording of the call will also be made available: http://vm.buchanan.uk.com/2018/Petropavlovsk280318/registration.htm

Enquiries

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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Cautionary note on forward-looking statements
This release may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward- looking statements include all matters that are not historical facts. They appear in a number of places throughout this release and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the future price of gold, the Group's results of operations, financial position, liquidity, prospects, growth, estimation of mineral reserves and resources and strategies, and exchange rates and the expectations of the industry.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances outside the control of the Group. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates may differ materially from those described in, or suggested by, any forward- looking statements contained in this release. In addition, even if the development of the markets and the industry in which the Group operates are consistent with the forward looking statements contained in this release, those developments may not be indicative of developments in subsequent periods. A number of factors could cause results and/or developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, demand, supply and prices for gold and other long-term commodity price assumptions (and their effect on the timing and feasibility of future projects and developments), trends in the gold mining industry and conditions of the international gold markets, competition, actions and activities of governmental authorities (including changes in laws, regulations or taxation), currency fluctuations (including as between the US Dollar and Rouble), the Group's ability to recover its reserves or develop new reserves, changes in its business strategy, any litigation, and political and economic uncertainty. Except as required by applicable law, rule or regulation (including the Listing and Disclosure Guidance and Transparency Rules), the Group does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Past performance cannot be relied on as a guide to future performance.
The content of websites referred to in this announcement does not form part of this announcement

The financial information set out in this release does not constitute the company's statutory accounts for the years ended 31 December 2017 or 2016, but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the company's annual general meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

Chairman's Statement

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

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

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

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

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

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

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

Note
♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

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

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

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

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

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

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

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

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

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

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

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

I am pleased to report that during the year our environmental management system was accredited as compliant with GOST R ISO 14001-2016 (ISO 14001:2015), which is a globally recognised international standard. The accreditation applies to each of the Group's mines and is a wonderful acknowledgment for all those involved. Additionally during the year, and as a means to improve our relationship with our local stakeholders, we engaged a third party to undertake a review of Petropavlovsk's relationships with local communities. Whilst there were no material adverse findings from the review we have developed an action plan to better communicate and more effectively implement our safety and sustainability policy. We have also developed a Grievance Procedure, which enables members of the public and other stakeholders to raise complaints or issues concerning Petropavlovsk activities, and that assures these complaints will receive due consideration and a written response. The Grievance Mechanism is currently being discussed with the view to it being implemented in 2018. Once in place, individuals will be able to register complaints online, by post, by phone or in person. During the year, 1,958 people were trained at the Pokrovskiy Mining College, Petropavlovsk's main educational asset, which for nine years has prepared qualified graduates for the Group. Today it is a progressive, multi-level, innovative educational institution, implementing a wide range of educational programs in-house.

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

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

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

2018 OUTLOOK

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

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

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

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

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

Interim Chief Executive Officer's Statement

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

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

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

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

Production and Operations

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

Note
♦ Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.

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

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

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

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

POX Hub Development

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

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

Note

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

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

Exploration, Mineral Resources and Ore Reserves

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

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

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

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

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

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

Health and Safety

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

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

The Future Takes Shape

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

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

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

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

Operational Review

2017 production output benefited from the release of gold in circuit due to successful commissioning, in Q1 2017, of a resin treatment facility that released gold in circuit, which is gold remaining in the processing circuit of the plant (primarily in resin sorbent and cyanide solution, in the form of electrolytic product).

Pioneer

Pioneer is one of the Group's most prospective assets, providing near term growth from its underground non-refractory exploration and development potential, and its regional exploration potential (Pioneer flanks). Long term growth includes bringing forward the flotation plant (6.0Mtpa) development, currently scheduled for 2021, and the untapped greenfield exploration potential within its 1,375km^2 total license area.

2017 Progress

- Underground mining has commenced and is ramping up to full capacity
- Underground Resource and Reserves expanded from 0.36 to 0.63Moz
- Production levels increased despite lower grades and recoveries, driven by successful measures to release gold in circuit
- Non-refractory open pit Reserves increased from 0.98 to 1.1Moz despite depletion

2018 Targets

- Ramp up underground ore production to 200ktpa throughout the year
- Ongoing underground drilling, expansion of Reserves and Resources
- Maintain open pit mining and operating excellence

Operational Performance

Pioneer open pit and underground mining operations			
	Units	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total material moved	*m3 '000*	**15,857**	17,360
Ore mined	*t '000*	**8,489**	3,266
Average grade	*g/t*	**0.72**	0.95
Gold content	*oz. '000*	**196.4**	99.4
Pioneer processing operations (RIP plant)			
Total milled	*t '000*	**6,783**	6,700
Average grade	*g/t*	**0.68**	0.75
Gold content	*oz. '000*	**148.9**	159.8
Recovery	*%*	**75.3%**	85.5%
Gold recovered	*oz. '000*	**112.1**	136.6
Heap leach operations			

Total stacked	*t '000*	**752**	701
Average grade	*g/t*	**0.49**	0.53
Gold content	*oz. '000*	**11.7**	12.0
Recovery	*%*	**51.8%**	44.1%
Gold recovered	*oz. '000*	**6.1**	5.3
Pioneer gold production – Doré**	*oz. '000*	**161.8**	133.2

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

The main sources of ore at Pioneer were pits of the Alexandra, Yuzhnaya, Promezhutochnaya and Andreevskaya-West zones. This ore was blended with lower grade material from stockpiles to achieve a 0.68g/t ore feed through the mill. RIP processing recoveries were lower than in2016 due to head grades being lower and the ore processed being more refractory than in the previous year. Heap leach operations commenced on schedule in April 2017 and operated as normal through the warmer season until the end of October, producing 6.1koz of gold.

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

Total cash costs♦ were US$791/oz, a 25% increase from 2016 (US$631/oz). All in sustaining costs♦ were US$1,164/oz, a 36% increase from 2016. Both total cash costs♦ and all in sustaining costs♦ are affected by rouble appreciation against the US dollar and by inflation of certain Rouble denominated costs. Higher total cash costs♦ also reflect the impact of the lower grades processed and lower metallurgical recoveries. The increase in all in sustaining costs♦ is also attributable to the development of the NE Bakhmut underground project and tailings dam expansion.

2018 Outlook

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

Note

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

Albyn

Albyn is currently the Company's largest producing mine with a 100% non-refractory defined resource base. The highly prospective 1,053.1km^2 license area is largely under explored, presenting potential near term upside from high grade, non-refractory resources to be discovered. The main orebodies at Albyn are open in a down dip direction beyond the feasible depth of open pit mining, offering longer term growth potential to establish mineral resource and ore reserves for underground mining.

2017 Progress

- Production up by 4% vs. 2016
- Elginskoye and Unglichikan R&R expanded, extending Albyn mine life

2018 Targets

- Sustain Albyn open pit production at similar levels to 2017
- Drill deeper, below Albyn pit, to model and assess underground potential
- Continue exploration programme at Unglichikan and Afanasevskoye to further expand Albyn's non-refractory R&R base and subsequent life of mine

Operational Performance

Albyn open pit mining operations			
	Units	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total material moved	*m3 '000*	**28,557**	31,763
Ore mined	*t '000*	**5,263**	4,970
Average grade	*g/t*	**1.16**	1.25
Gold content	*oz. '000*	**196.5**	199.5
Albyn processing operations (RIP plant)			
Total milled	*t '000*	**4,618**	4,675
Average grade	*g/t*	**1.16**	1.28
Gold content	*oz. '000*	**171.9**	192.5
Recovery	*%*	**93.3%**	93.5%
Gold recovered	*oz. '000*	**160.3**	180
Albyn gold production - Doré	*oz. '000*	**181.6**	173.9

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

2018 Outlook

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

Total cash costs♦ were US$541/oz, a 7% decrease from 2016 (US$581/oz). All in sustaining costs♦ were US$718/oz with no material change compared to 2016. Total cash costs♦ and all in sustaining costs♦ are affected by rouble appreciation against the US dollar, and by inflation of certain Rouble denominated costs. The increase in gold produced mitigated the negative effect of these factors.

Malomir

Malomir is the Group's largest asset by Reserve and Resource with c.90% of the reserve base categorised as refractory. Completing the POX Hub, which is scheduled for the end of 2018, will unlock material value embedded with the existing defined asset base and extend the expected life of mine to greater than 16 years, with untapped resource potential within the 821.3km^2 license area.

2017 Progress

- 80% increase in ore mined and 13% increase in volume of ore processed helped to drive production
- Quartzitovoye underground mine development completed, with the mine at full production by year end
- Stage 1 flotation plant completed and awaiting commissioning in Q2 2018

2018 Targets

- Commence refractory concentrate production
- Maintain underground mining at a steady state output of c.200ktpa
- Sustain open pit and underground mining and operational excellence

Operational Performance

Malomir open pit and underground mining operations			
	Units	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total material moved	*m3 '000*	**9,380**	8,115
Ore mined	*t '000*	**2,770**	1,535
Average grade	*g/t*	**0.97**	1.11
Gold content	*oz. '000*	**86.1**	54.9
Malomir processing operations (RIP plant)			
Total milled	*t '000*	**3,404**	3,000
Average grade	*g/t*	**0.91**	0.86
Gold content	*oz. '000*	**99.5**	82.5
Recovery	*%*	**64.9%**	68.9%
Gold recovered	*oz. '000*	**64.6**	56.8
Malomir gold production - Doré	*oz. '000*	**65.6**	54.9

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

Note

♦ Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.

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

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

The construction of an underground mine at Quartzitovoye 1 began in January 2017, and 3,084m (47,157m^3) of underground development was completed during the year.

Delays experienced in Q1 2017 were largely rectified by the end of Q3. Full scale stope mining commenced in December, resulting in strong production towards the year end. During 2017, a total of 73.6kt of ore was mined from underground, with an average gold content of 8.03g/t. The Quartzitovoye underground mine is expected to be in full production throughout 2018.

Total cash costs♦ were US$929/oz, a 13% increase from 2016 (US$824/oz). All in sustaining costs♦ were US$1,278/oz, a 27% increase from 2016. Both total cash costs♦ and all in sustaining costs♦ are affected by rouble appreciation against the US dollar, and by inflation of certain Rouble denominated costs. Higher total cash costs♦ also reflect the impact of the higher strip ratio and lower metallurgical recoveries. The increase in all in sustaining costs♦ is also attributable to the development of the Quartzitovoye underground project.

2018 Outlook

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

Pokrovskiy

Pokrovskiy was the license and subsequently the mine which the Group's early success was built upon. Having produced more than c.2.0Moz since 1999.Pokrovskiy has now reached the end of its life as an open pit mine. Mining and processing ceased earlier in Q1 2018 and the mine is in the process of being converted into the POX Hub, an integral part of the Group’s future plans. Pokrovskiy provides the ideal strategic location, not only due to the excellent onsite and regional infrastructure, but also its close proximity to Pioneer’s limestone deposit, lime being a key ingredient for the pressure oxidation process.

2017 Progress

- Gold production as per budget
- RIP production to stop in Q1 2018
- Site prepared for RIP plant decommissioning and integration into POX

Note

♦ Go to “The Use and Application of Alternative Performance Measures (APMs)” section for further information on our APMs.

Pokrovskiy open pit mining operations

	Units	**Year ended 31 Dec 2017**	Year ended 31 Dec 2016
Total material moved	*m3 '000*	**3,745**	4,709
Ore mined	*t '000*	**1,468**	1,027
Average grade	*g/t*	**0.51**	0.79
Gold content	*oz. '000*	**24.1**	26
Pokrovskiy processing operations (RIP plant)			
Total milled	*t '000*	**1,815**	1,791
Average grade	*g/t*	**0.47**	0.65
Gold content	*oz. '000*	**27.4**	37.1
Recovery	*%*	**82.9%**	90.1%
Gold recovered	*oz. '000*	**22.7**	33.5
Heap leach operations			
Total stacked	*t '000*	**498**	440
Average grade	*g/t*	**0.39**	0.45
Gold content	*oz. '000*	**6.3**	6.3
Recovery	*%*	**45.4%**	64.8%
Gold recovered	*oz. '000*	**2.9**	4.1
Pokrovskiy gold production - Doré	*oz. '000*	**30.6**	38.2

Operational Performance

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

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

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

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

2018 Outlook

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

Note

♦ Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.

Financial Review

Note: Figures may not add up due to rounding

Financial Highlights

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

(a) Calculation of total cash costs ("TCC") is set out in the section Hard-rock mines below.
(b) All-in sustaining costs ("AISC") and all-in costs ("AIC") are calculated in accordance with guidelines for reporting all-in sustaining costs and all-in costs published by the World Gold Council. Calculation is set out in the section All-in sustaining costs and all-in costs below.

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

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

Revenue

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

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

Revenue from hard-rock mines was US$556.2 million, 14% higher than the US$490.0 million achieved in 2016. Gold remains the key commodity produced and sold by the Group, comprising 95% of total revenue generated in 2017. The physical volume of gold sold from hard-rock mines increased by 10% from 399,858oz in 2016 to 439,834oz in 2017. The average realised gold price♦ increased by 3% from

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

US$1,222/oz in 2016 to US$1,262/oz in 2017. The average realised gold price◆ includes a US$2/oz effect from hedge arrangements (2016: US$(21)/oz).

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

Revenue generated as a result of third-party work by the Group's in-house service companies was US$31.2 million in 2017, a US$19.5 million decrease compared to US$50.7 million in 2016. This revenue is substantially attributable to sales generated by the Group's engineering and research institute, Irgiredmet, primarily through engineering services and the procurement of materials, consumables and equipment for third parties, which comprised US$29.0 million in 2017 compared to US$44.8 million in 2016.

Cash flow hedge arrangements

In order to increase certainty in respect of a significant proportion of its cash flows, the Group has entered into a number of gold forward contracts.

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

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

Underlying EBITDA◆ and analysis of operating costs

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

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

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

◆ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

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

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

Hard-rock mines

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

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

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

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

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

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

◆ *Go to “The Use and Application of Alternative Performance Measures (APMs)” section for further information on our APMs.*

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

(a) Excluding deferred stripping

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

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

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

All-in sustaining costs◆ and all-in costs◆

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

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

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

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

◆ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

Corporate and other

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

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

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

Impairment review

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

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

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

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

Interest income and expense

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

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

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

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

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

Other finance gains and losses

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

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

Taxation

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

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

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

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

Earnings per share

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

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

Financial position and cash flows

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

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

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

(d) Including US$88.1 million cash CAPEX.

Issue of US$500 million Notes

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

Key movements in cash and net debt

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

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

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

Capital expenditure♦

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

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

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

(a) Including US$33.2 million of development expenditure in relation to the POX Hub which is considered to be non-sustaining capital expenditure for the purposes of calculating all-in sustaining costs and all-in costs.
(b) Including US$12.0 million of expenditure in relation to the underground mining project at Pioneer to be sustaining capital expenditure for the purposes of calculating the all-in sustaining costs and all-in costs.
(c) Including US$3.5 million of expenditure in relation to the underground mining project at Malomir to be sustaining capital expenditure for the purposes of calculating the all-in sustaining costs and all-in costs.
(d) Including US$8.1 million of expenditure in relation to Malomir flotation (including tailing dams), which is considered to be non-sustaining capital expenditure for the purposes of calculating all-in sustaining costs and all-in costs.

Foreign currency exchange differences

The Group's principal subsidiaries have a US Dollar functional currency. Foreign exchange differences arise on the translation of monetary assets and liabilities denominated in foreign currencies, which for the principal subsidiaries of the Group are the Russian Rouble and GB Pounds Sterling.

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

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

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

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

Going concern

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

The Group performed an assessment of the forecast cash flows for the period of 12 months from the date of approval of the 2017 Annual Report and Accounts. As at 31 December 2017, the Group had sufficient liquidity headroom. Following the successful issue of the US$500 million Guaranteed Notes (note 20), the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to April 2019. In the meantime, the Group's projections under a layered stressed case that is based on the gold price, which is 10% lower than the average of the market consensus forecasts, indicate that unless mitigating actions can be taken, there will be insufficient liquidity under a layered stressed case for the relevant period to April 2019. These mitigating actions include items within the control of the management, such as accessing deposits not currently in the Group's mining plan, cost cutting and reduction of exploration expenditure.
The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US$234 million as at 31 December 2017. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. In 2017, IRC has agreed with ICBC to reschedule repayments under the ICBC Facility Agreement and obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive). The next repayment instalment under the ICBC Facility Agreement is now due on 20 June 2018 and semi-annually thereafter until June 2022. IRC projections demonstrate that although IRC expects to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule and non-compliance with certain financial covenants for the relevant period to April 2019. Management of Company and IRC has approached ICBC to request an amendment of the repayment schedule and obtain waivers in respect of obligations to comply with certain financial covenants. Management is also in active discussions regarding the full refinancing of the ICBC facility with an alternative lender. However, if ICBC refinancing is not completed, IRC's financial liquidity may be adversely impacted. IRC and/or the Company would then need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt and/or equity financing.

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

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

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

2018 Outlook

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

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs*

PETROPAVLOVSK PLC
Consolidated Income Statement
For the year ended 31 December 2017

	note	**2017** **US$'000**	2016 US$'000
Group revenue	5	**587,420**	540,684
Operating expenses	6	**(510,683)**	(460,103)
		76,737	80,581
Share of results of associates	14	**35,208**	(3,581)
Operating profit		**111,945**	77,000
Investment income	9	**760**	556
Interest expense	9	**(25,905)**	(60,976)
Other finance gains	9	**2,199**	11,976
Other finance losses	9	**(28,470)**	(1,548)
Profit before taxation		**60,529**	27,008
Taxation	10	**(19,063)**	4,698
Profit for the period		**41,466**	31,706
Attributable to:			
Equity shareholders of Petropavlovsk PLC		**42,378**	33,719
Non-controlling interests		**(912)**	(2,013)
Profit per share			
Basic profit per share	11	**US$0.01**	US$0.01
Diluted profit per share	11	**US$0.01**	US$0.01

PETROPAVLOVSK PLC
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	2017 US$'000	2016 US$'000
Profit for the period	**41,466**	31,706
Items that may be reclassified subsequently to profit or loss:		
Revaluation of available-for-sale investments	**(758)**	834
Exchange differences:		
Exchange differences on translating foreign operations	**832**	2,577
Share of other comprehensive (loss)/income of associate	**(458)**	560
Cash flow hedges:		
Fair value losses	**(39,148)**	(4,940)
Tax thereon	**7,343**	988
Transfer to revenue	**(808)**	8,494
Tax thereon	**162**	(1,699)
Other comprehensive (loss)/profit for the period net of tax	**(32,835)**	6,814
Total comprehensive profit for the period	**8,631**	38,520
Attributable to:		
Equity shareholders of Petropavlovsk PLC	**9,706**	40,494
Non-controlling interests	**(1,075)**	(1,974)
	8,631	38,520

PETROPAVLOVSK PLC
Consolidated Balance Sheet
As at 31 December 2017

	note	**31 December 2017**	31 December 2016 (restated) [(a)]	1 January 2016 (restated) [(a)]
		US$'000	US$'000	US$'000
Assets				
Non-current assets				
Exploration and evaluation assets	12	**53,518**	49,270	68,993
Property, plant and equipment	13	**984,114**	953,794	1,038,343
Investments in associates	14	**70,890**	36,140	39,394
Available-for-sale investments		**347**	1,105	271
Inventories	15	**72,720**	51,686	51,434
Other non-current assets		**8,931**	11,383	12,543
		1,190,520	1,103,378	1,210,978
Current assets				
Inventories	15	**172,652**	183,266	175,222
Trade and other receivables	16	**75,830**	90,430	49,937
Derivative financial instruments	18	**-**	7,478	3,925
Cash and cash equivalents	17	**11,415**	12,642	28,239
		259,897	293,816	257,323
Total assets		**1,450,417**	1,397,194	1,468,301
Liabilities				
Current liabilities				
Trade and other payables	19	**(88,333)**	(55,638)	(96,567)
Current income tax payable		**(940)**	(2,288)	(4,748)
Borrowings	20	**(7,137)**	(85,306)	(260,248)
Provision for close down and restoration costs	22	**(200)**	-	-
		(96,610)	(143,232)	(361,563)
Net current assets/(liabilities)		**163,287**	150,584	(104,240)
Non-current liabilities				
Borrowings	20	**(589,337)**	(525,906)	(378,030)
Derivative financial instruments	18	**(49,684)**	(10,314)	(14,684)
Deferred tax liabilities	21	**(106,271)**	(119,028)	(152,799)
Provision for close down and restoration costs	22	**(20,804)**	(19,152)	(17,184)
Financial liabilities	25	**(8,603)**	(9,229)	(12,368)
		(774,699)	(683,629)	(575,065)
Total liabilities		**(871,309)**	(826,861)	(936,628)
Net assets		**579,108**	570,333	531,673
Equity				
Share capital	23	**48,920**	48,920	48,874
Share premium		**518,142**	518,142	518,142
Own shares		**-**	-	(8,933)
Hedging reserve		**(26,388)**	5,900	3,096
Share based payments reserve		**144**	-	280
Other reserves		**(17,500)**	(17,574)	(20,985)
Retained earnings/(losses)		**47,457**	(1,502)	(27,222)
Equity attributable to the shareholders of Petropavlovsk PLC		**570,775**	553,886	513,252
Non-controlling interests		**8,333**	16,447	18,421
Total equity		**579,108**	570,333	531,673

(a) See note 2 for details regarding the restatement.

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 27 March 2018 and signed on their behalf by

Ian Ashby
Director

Andrey Maruta
Director

PETROPAVLOVSK PLC
Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Total attributable to equity holders of Petropavlovsk PLC									
	Share capital US$'000	Share premium US$'000	Own shares[a] US$'000	Share based payments reserve US$'000	Hedging reserve US$'000	Other reserves[b] US$'000	Retained earnings/ (losses) US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
Balance at 1 January 2016	48,874	518,142	(8,933)	280	3,096	(20,985)	(47,922)	492,552	18,421	510,973
Correction of error in accounting for deferred tax liabilities [c]	-	-	-	-	-	-	20,700	20,700	-	20,700
Balance at 1 January 2016 (restated)	48,874	518,142	(8,933)	280	3,096	(20,985)	(27,222)	513,252	18,421	531,673
Total comprehensive income/(loss)	-	-	-	-	2,804	3,411	34,279	40,494	(1,974)	38,520
Profit/(loss) for the period	-	-	-	-	-	-	33,719	33,719	(2,013)	31,706
Other comprehensive income	-	-	-	-	2,804	3,411	560	6,775	39	6,814
Deferred share awards	46	-	8,933	(280)	-	-	(8,559)	140	-	140
Balance at 31 December 2016	**48,920**	**518,142**	**-**	**-**	**5,900**	**(17,574)**	**(1,502)**	**553,886**	**16,447**	**570,333**
Total comprehensive (loss)/income	**-**	**-**	**-**	**-**	**(32,288)**	**74**	**41,920**	**9,706**	**(1,075)**	**8,631**
Profit/(loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**42,378**	**42,378**	**(912)**	**41,466**
Other comprehensive (loss)/income	**-**	**-**	**-**	**-**	**(32,288)**	**74**	**(458)**	**(32,672)**	**(163)**	**(32,835)**
Deferred share awards	**-**	**-**	**-**	**144**	**-**	**-**	**-**	**144**	**-**	**144**
Issue of shares by subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**7,039**	**7,039**	**(7,039)**	**-**
Balance at 31 December 2017	**48,920**	**518,142**	**-**	**144**	**(26,388)**	**(17,500)**	**47,457**	**570,775**	**8,333**	**579,108**

(a) Own shares represented 1,441,406 Ordinary Shares held by the Company's EBT until they were transferred upon vesting of the Deferred Share Award on 1 May 2016.
(b) Including translation reserve of US$(14.8) million, 31 December 2016: US$(15.6) million.
(c) See note 2 for details regarding the restatement.

PETROPAVLOVSK PLC
Consolidated Cash Flow Statement
For the year ended 31 December 2017

	note	**2017 US$'000**	2016 US$'000
Cash flows from operating activities			
Cash generated from operations	24	**204,306**	126,013
Interest paid		**(49,205)**	(53,708)
Income tax paid		**(31,098)**	(35,305)
Net cash from operating activities		**124,003**	37,000
Cash flows from investing activities			
Proceeds from disposal of subsidiaries, net of cash disposed and liabilities settled		**-**	19,188
Proceeds from disposal of the Group's interests in associates		**-**	231
Purchase of property, plant and equipment	24	**(82,295)**	(22,004)[(a)]
Expenditure on exploration and evaluation assets	12	**(5,763)**	(7,356)[(a)]
Proceeds from disposal of property, plant and equipment		**334**	742
Repayment of amounts loaned to other parties		**-**	1
Interest received		**752**	540
Net cash used in investing activities		**(86,972)**	(8,658)
Cash flows from financing activities			
Issue of Notes, net of transaction cost		**495,035**	-
Proceeds from borrowings		**-**	295,250[(b)]
Repayments of borrowings		**(525,789)**	(322,221)[(b)]
Debt transaction costs paid in connection with bank loans		**(9,040)**	(4,031)
Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development	29	**31,225**	30,771
Funds transferred under investment agreement with the Russian Ministry of Far East Development	29	**(31,225)**	(47,665)
Guarantee fee in connection with ICBC facility		**1,158**	1,126
Net cash used in financing activities		**(38,636)**	(46,770)
Net decrease in cash and cash equivalents in the period		**(1,605)**	(18,428)
Effect of exchange rates on cash and cash equivalents		**378**	2,831
Cash and cash equivalents at beginning of period	17	**12,642**	28,239
Cash and cash equivalents at end of period	17	**11,415**	12,642

(a) An amount of US$9.2 million has been re-presented between movements in purchase of property, plant and equipment and expenditure on exploration and evaluation assets. This increased the cash outflow for the purchase of property, plant and equipment from US$12.8 million to US$22.0 million with a corresponding adjustment to expenditure on exploration and evaluation assets which reduced from US$16.6 million to US$7.4 million.

(b) Including US$295.25 million in connection with bank debt refinancing.

1. General information

Petropavlovsk PLC (the 'Company') is a company incorporated and registered in England and Wales. The address of the registered office is 11 Grosvenor Place, London SW1X 7HH.

2. Significant accounting policies

2.1. Basis of preparation and presentation

The consolidated financial statements of Petropavlovsk PLC and its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial investments, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Going concern

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

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

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

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

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

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

Correction of error in accounting for deferred tax liabilities

In 2017, the Group undertook a detailed review of the implications of impairment provision recognised in relation to property, plant and equipment in prior periods on deferred taxation and concluded that deferred tax liability has been overstated. The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	31 December 2016 US$'000	(Decrease)/ increase US$'000	31 December 2016 Restated US$'000	1 January 2016 US$'000	(Decrease)/ increase US$'000	1 January 2016 Restated US$'000
Deferred tax liabilities	139,728	(20,700)	119,028	173,499	(20,700)	152,799
Net assets	549,633	20,700	570,333	510,973	20,700	531,673
Retained losses	22,202	(20,700)	1,502	47,922	(20,700)	27,222
Total equity	549,633	20,700	570,333	510,973	20,700	531,673

Presentation of the ICBC guarantee arrangements

As at 30 June 2017, the Group reviewed arrangements under the ICBC guarantee (note 20) and concluded it would be more appropriate to disclose the associated receivable from IRC and financial liability under the ICBC guarantee contract on a gross basis. The affected financial statement line items for the prior periods have been re-presented accordingly as set out below. This re-presentation did not have any impact on net assets, retained losses or total equity.

	31 December 2016 US$'000	Increase US$'000	31 December 2016 Restated US$'000	1 January 2016 US$'000	Increase US$'000	1 January 2016 Restated US$'000
Other non-current assets	2,154	9,229	11,383	175	12,368	12,543
Financial liabilities	-	9,229	9,229	-	12,368	12,368

2.2. Adoption of new and revised standards and interpretations

New and revised standards and interpretations adopted for the current reporting period

The following new and revised Standards and Interpretations that were effective for annual periods beginning on or after 1 January 2017 and applicable to the Group have been adopted:

- Amendments to IAS 7 'Statement of cash flows": Disclosure Initiative;
- Amendments to IAS 12 "Income taxes": Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 12 "Disclosure of interests in other entities".

These standards, amendments, and interpretations have not had a significant impact on amounts reported, presentation or disclosure in these consolidated financial statements.

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2017 and not early adopted

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- ***IFRS 9 'Financial instruments':***
  The standard addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard is effective for annual periods beginning in or after 1 January 2018.

  Classification and measurement: IFRS 9 establishes a principles-based approach to determining whether a financial asset should be measured at amortised cost or fair value, based on the cash flow characteristics of the asset and the business model in which the asset is held. The Group anticipates that the classification and measurement basis for its financial assets will be largely unchanged under this model.

  Impairment: The new impairment model requires the recognition of impairment provision based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. This may result in an earlier recognition of credit losses.

Based on the assessments undertaken to date, the Group expects an approximately US$0.5 million increase in the loss allowance for the receivable recognised in relation to the ICBC guarantee arrangements (note 25).

Hedge accounting: The adoption of the new standard would not materially change the amounts recognised in relation to existing hedging arrangements but could provide scope to apply hedge accounting to a broader range of transactions in the future. The Group intends to continue to apply hedge accounting requirements under IAS 39.

– ***IFRS 15 'Revenue from contracts with customers'***
  The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations and is effective for annual periods beginning in or after 1 January 2018.

  The new standard is based on the principal that revenue is recognised when control of a good or service is transferred to a customer.

  The Group's revenue is predominantly derived from gold sales, where the point of recognition is dependent on the contract sales terms. As the transfer of risks and rewards generally coincides with the transfer of control at a point in time, the timing and amount of revenue recognised for the sale of gold is unlikely to be materially affected.

– ***IFRS 16 'Leases'***
  The standard replaces IAS 17 'Accounting for Leases' and related interpretations and is effective for annual periods beginning in or after 1 January 2019.

  The standard will affect primarily the change the accounting treatment by lessees of leases currently classified as operating leases. Lease agreements will give rise to the recognition by the lessee of an asset, representing the right to use the leased item, and a related liability for future lease payments. Lease costs will be recognised in the income statement in the form of depreciation of the right-of-use asset over the lease term, and finance charges representing the unwind of the discount on the lease liability. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

  The Group's operating lease arrangements are set out in note 28. The Group has performed the review to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. The Group estimates that, except for the lease of office premises, the majority of lease arrangements will be covered by the exception for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss. With regards to the lease of office premises, the Group has not yet assessed what other adjustments, if any, are necessary because the different treatment of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised, if any, on adoption of the new standard and how this may affect the group's profit or loss and classification of cash flows going forward.

There are no other standards and amendments that are not yet effective and would be expected to have a significant impact on the Group's financial statements.

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2.3. Basis of consolidation

These consolidated financial statements consist of the financial statements of the Company and its subsidiaries as at the balance sheet date. Subsidiaries are all entities over which the Group has control.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls a subsidiary if, and only if, it has all of the following:

– power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary);
– exposure, or rights, to variable returns from its involvement with the subsidiary; and
– the ability to use its power over the subsidiary to affect its returns.

When the Group has less than a majority of the voting rights of a subsidiary or similar rights of a subsidiary, it considers all relevant facts and circumstances in assessing whether it has power over the subsidiary including:

– the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
– potential voting rights held by the Group, other vote holders or other parties;
– rights arising from other contractual arrangements; and
– any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Company reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. The recognised income and expense are attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.4. Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.5. Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The carrying amount of equity-accounted investments is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the policy described in note 2.9.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

2.6. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, which is the Group's presentation currency. The functional currency of the Company is the US Dollar.

The rates of exchange used to translate balances from other currencies into US Dollars were as follows (currency per US Dollar):

	As at 31 December 2017	**Average year ended 31 December 2017**	As at 31 December 2016	Average year ended 31 December 2016
GB Pounds Sterling (GBP : US$)	**0.74**	**0.78**	0.81	0.74
Russian Rouble (RUB : US$)	**57.60**	**58.32**	60.66	67.18

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations which have a functional currency other than US Dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and expenses and accumulated in equity, with share attributed to non-controlling interests as appropriate. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation.

2.7. Exploration and evaluation assets

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, are capitalised and recorded on the balance sheet within exploration and evaluation assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling pre-feasibility and feasibility studies; and
- costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration and evaluation assets are subsequently valued at cost less impairment. In circumstances where a project is abandoned, the cumulative capitalised costs related to the project are written off in the period when such decision is made.

Exploration and evaluation assets are not depreciated. These assets are transferred to mine development costs within property, plant and equipment when a decision is taken to proceed with the development of the project.

2.8. Property, plant and equipment

Mine development costs
Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure includes costs directly attributable to the construction of a mine and the related infrastructure. Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as ‘mine development costs’. Mine development costs are reclassified as ‘mining assets’ at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

Mine development costs are not depreciated, except for property plant and equipment used in the development of a mine. Such property, plant and equipment are depreciated on a straight-line basis based on estimated useful lives and depreciation is capitalised as part of mine development costs.

Mining assets
Mining assets are stated at cost less accumulated depreciation. Mining assets include the cost of acquiring and developing mining assets and mineral rights, buildings, vehicles, plant and machinery and other equipment located on mine sites and used in the mining operations.

Mining assets, where economic benefits from the asset are consumed in a pattern which is linked to the production level, are depreciated using a units of production method based on the volume of ore reserves. This results in a depreciation charge proportional to the depletion of reserves. The basis for determining ore reserve estimates is set out in note 3.2. Where the mining plan anticipates future capital expenditure to support the mining activity over the life of the mine, the depreciable amount is adjusted for such estimated future expenditure.

Certain property, plant and equipment within mining assets are depreciated based on estimated useful lives, if shorter than the remaining life of the mine or if such property, plant and equipment can be moved to another site subsequent to the mine closure.

Mining assets related to alluvial gold operations are depreciated on a straight-line basis based on estimated useful lives.

Non-mining assets
Non-mining assets are stated at cost less accumulated depreciation. Non-mining assets are depreciated on a straight-line basis based on estimated useful lives.

Capital construction in progress
Capital construction in progress is stated at cost. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. Capital construction in progress is not depreciated.

Depreciation
Property, plant and equipment are depreciated using a units of production method as set out above or on a straight-line basis based on estimated useful lives. Estimated useful lives normally vary as set out below.

	Average life Number of years
Buildings	15-50
Plant and machinery	3-20
Vehicles	5-7
Office equipment	5-10
Computer equipment	3-5

Residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively.

2.9. Impairment of non-financial assets

Property, plant and equipment, exploration and evaluation assets and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This applies to the assets held by the Group itself as well as the Group’s share of the assets held by the associates.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of ‘value in use’ (being the net present value of expected future cash flows of the relevant cash generating unit) or ‘fair value less costs to sell’. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm’s length transaction. Future cash flows are based on:

– estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
– future production levels;
– future commodity prices (assuming the current market prices will revert to the Group’s assessment of the long-term average price, generally over a period of up to five years); and
– future cash costs of production, capital expenditure, environment protection, rehabilitation and closure.

IAS 36 ‘Impairment of assets’ includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related capital expenditure. When calculating ‘value in use’, it also requires that calculations should be based on exchange rates current at the time of the assessment.

For operations with a functional currency other than the US Dollar, the impairment review is undertaken in the relevant functional currency. These estimates are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36 ‘Impairment of assets’.

The discount rate applied is based upon a post-tax discount rate that reflects current market assessments of the time value of money and the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount in the balance sheet to its recoverable amount. A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

2.10. Deferred stripping costs

In open pit mining operations, removal of overburden and other waste materials, referred to as stripping, is required to obtain access to the ore body.

Stripping costs incurred during the development of the mine are capitalised as part of mine development costs and are subsequently depreciated over the life of a mine on a units of production basis.

Stripping costs incurred during the production phase of a mine are deferred as part of cost of inventory and are written off to the income statement in the period over which economic benefits related to the stripping activity are realised where this is the most appropriate basis for matching the costs against the related economic benefits.

Where, during the production phase, further development of the mine requires a phase of unusually high overburden removal activity that is similar in nature to pre-production mine development, such stripping costs are considered in a manner consistent with stripping costs incurred during the development of the mine before the commercial production commences.

In gold alluvial operations, stripping activity is sometimes undertaken in preparation for the next season. Stripping costs are then deferred as part of cost of inventory and are written off to the income statement in the following year to match related production.

2.11. Provisions for close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or constructive obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or unwinding of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance sheet date. All other costs of continuous rehabilitation are charged to the income statement as incurred.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy set out above.

2.12. Financial instruments

Financial instruments recognised in the balance sheet include cash and cash equivalents, other investments, trade and other receivables, borrowings, derivatives, and trade and other payables.

Financial instruments are initially measured at fair value when the Group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit or loss. The subsequent measurement of financial instruments is dealt with below.

Financial assets

Financial assets are classified into the following specified categories: ‘financial assets at fair value through profit or loss’, ‘held-to-maturity investments’, ‘available-for-sale financial assets’ and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised at trade-date, the date on which the Group commits to purchase the asset. The Group does not hold any financial assets which meet the definition of ‘held-to-maturity investments’.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included within non-current assets unless the investment matures or management intends to dispose of them within 12 months of the balance sheet date. Available-for-sale financial assets are initially measured at cost and subsequently carried at fair value. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of other reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets fixed or determinable payments that are not quoted on an active market. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Effective interest method
The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Cash and cash equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value and are measured at cost which is deemed to be fair value as they have a short-term maturity.

Trade receivables
Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Impairment of trade receivables is established when there is objective evidence as a result of a loss event that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is recognised in the income statement.

Other investments
Listed investments and unlisted equity investments, other than investments in subsidiaries, joint ventures and associates, are classified as available-for-sale financial assets and subsequently measured at fair value. Fair values for unlisted equity investments are estimated using methods reflecting the economic circumstances of the investee. Equity investments for which fair value cannot be measured reliably are recognised at cost less impairment. Changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under within Other reserves in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to the income statement as 'gains and losses from investment securities'.

Financial liabilities
Financial liabilities, other than derivatives, are measured on initial recognition at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Derivative financial instruments
In accordance with IAS 39 the fair value of all derivatives is separately recorded on the balance sheet. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Derivatives embedded in other financial instruments or non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host-contract and the host contract is not carried at fair value. Embedded derivatives are recognised at fair value at inception. Any change to the fair value of the embedded derivatives is recognised in other finance gains or losses within the income statement. Embedded derivatives which are settled net are disclosed in line with the maturity of their host contracts.

The fair value of embedded derivatives is determined by using market prices where available. In other cases, fair value will be calculated using quotations from independent financial institutions, or by using appropriate valuation techniques.

Hedge accounting
The Group designates certain derivative financial instruments as hedging relationships. For the purposes of hedge accounting, hedging relationships may be of three types:

- fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability;
- cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows; and
- hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity.

Currently the Group only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not

qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship.
The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The fair value gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is reclassified to profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue cost.

Impairment of financial assets
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed.

2.13. Provisions
Provisions are recognised when the Group has a present obligation, whether legal or constructive, as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

2.14. Inventories
Inventories include the following major categories:

- stores and spares represent raw materials consumed in the production process as well as spare parts and other maintenance supplies.
- construction materials represent materials for use in capital construction and mine development.
- ore in stockpiles represent material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore in stockpiles is valued at the average cost per tonne of mining and stockpiling the ore. Quantities of ore in stockpiles ore are assessed through surveys and assays. Ore in stockpiles is classified between current and non-current inventory based on the expected processing schedule in accordance with the Group's mining plan.
- work in progress inventory primarily represents gold in processing circuit that has not completed the production process. Work in progress inventory is valued at the average production costs.
- deferred stripping costs are included in inventories where appropriate, as set out in note 2.10.

Inventories are valued at the lower of cost and net realisable value, with cost being determined primarily on a weighted average cost basis.

Provisions are recorded to reduce ore in stockpiles, work in process and finished goods inventory to net realisable value where the net realisable value is lower than relevant inventory cost at the balance sheet date. Net realisable value is determined with reference to relevant market prices less estimated costs to complete production and bring the inventory into its saleable form. Provisions are also recorded to reduce mine operating supplies to net realisable value, which is generally determined with reference to salvage or scrap value, when it is determined that the supplies are obsolete. Provisions are reversed to reflect subsequent recoveries in net realisable value where the inventory is still on hand at the balance sheet date.

2.15. Leases
Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.16. Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable, stated at the invoiced value net of discounts and value added tax.

Sales of gold and silver
The majority of the Group's revenue is derived from the sale of refined gold and silver, the latter being a by-product of gold production. Revenue from the sale of gold and silver is recognised when:
- the risks and rewards of ownership as specified in individual contracts are transferred to the buyer;
- the Group retains neither a continuing involvement nor control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the Group.

Other revenue
Other revenue is recognised as follows:
- engineering and construction contracts: When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. When it is probable that contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately;
- revenue from sales of goods is recognised when the goods are delivered to the buyer and the risks and benefits associated with ownership are transferred to the buyer; and
- rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2.17. Borrowing costs
Borrowing costs are generally expensed as incurred except where they relate to the financing of acquisition, construction or development of qualifying assets, which are mining projects under development that necessarily take a substantial period of time to get prepared for their intended use. Such borrowing costs are capitalised and added to mine development costs of the mining project when the decision is made to proceed with the development of the project and until such time when the project is substantially ready for its intended use (which is when commercial production is ready to commence) or if active development is suspended or ceases.

To the extent that funds are borrowed to finance a specific mining project, borrowing costs capitalised represent the actual borrowing costs incurred. To the extent that funds are borrowed for the general purpose, borrowing costs capitalised are determined by applying the interest rate applicable to appropriate borrowings outstanding during the period to the average amount of capital expenditure incurred to develop the relevant mining project during the period.

2.18. Taxation
Tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of comprehensive income or directly in equity. In this case, the tax is also recognised in the statement of comprehensive income or directly in equity, respectively.

Current tax is the tax expected to be payable on the taxable income for the year calculated using rates that have been enacted or substantively enacted by the balance sheet date. It includes adjustments for tax expected to be payable or recoverable in respect of previous periods.

Full provision is made for deferred taxation on all temporary differences existing at the balance sheet date with certain limited exceptions. Temporary differences are the difference between the carrying value of an asset or liability and its tax base. The main exceptions to this principle are as follows:

- tax payable on the future remittance of the past earnings of subsidiaries, associates and jointly controlled entities is provided for except where the Company is able to control the remittance of profits and it is probable that there will be no remittance in the foreseeable future;
- deferred tax is not provided on the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination, such as on the recognition of a provision for close down and restoration costs and the related asset or on the inception of finance lease; and
- deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Deferred tax is provided in respect of fair value adjustments on acquisitions. These adjustments may relate to assets such as mining rights that, in general, are not eligible for income tax allowances. In such cases, the provision for deferred tax is based on the difference between the carrying value of the asset and its nil income tax base.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates that have been enacted, or substantively enacted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. Areas of judgement in applying accounting policies and key sources of estimation uncertainty

When preparing the consolidated financial statements in accordance with the accounting policies as set out in note 2, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances and previous experience. Actual results may differ from these estimates under different assumptions and conditions.

3.1. Critical accounting judgements

Taxation
The Group is subject to income tax in the UK, Russian Federation and Cyprus. Assessing the outcome of uncertain tax positions requires judgements to be made. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due, such estimates are based on the status of ongoing discussions with the relevant tax authorities and advice from independent tax advisers. Details of tax charge for the year are set out in note 10.

Deferred tax assets, including those arising from tax losses carried forward for the future tax periods, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered. The likelihood of such recoverability is dependent on the generation of sufficient future taxable profits which a relevant deferred tax asset can be utilised to offset.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, the carrying amount of recognised deferred tax assets may require adjustment, resulting in a corresponding charge or credit to the income statement.

Details of deferred tax disclosures are set out in note 21.

3.2. Key sources of estimation uncertainty

Ore reserve estimates
The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) and the internally used Russian Classification System, adjusted to conform with the mining activity to be undertaken under the Group mining plan. Both the JORC Code and the Russian Classification System require the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs.

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method (note 13), impairment charges (note 6) and for forecasting the timing of the payment of close down and restoration costs (note 22). Also, for the purposes of impairment reviews and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or economic assumptions used to estimate reserves change. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values due to changes in estimated future cash flows (note 6);
- depreciation charged in the income statement where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine;
- provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs (note 22); and
- carrying value of deferred tax assets and liabilities (note 21) where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

Exploration and evaluation costs
The Group's accounting policy for exploration and evaluation expenditure results in exploration and evaluation expenditure being capitalised for those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale

or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure being capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to the income statement. Details of exploration and evaluation assets are set out in note 12.

Deferred stripping costs
The calculation of deferred stripping costs requires the use of estimates to assess the improved access to the ore to be mined in future periods. Changes to the Group's mining plan and pit design may result in changes to the timing of realisation of the stripping activity. As a result, there could be significant adjustments to the amounts of deferred stripping costs capitalised and their classification between current and non-current assets. Details of deferred stripping costs capitalised are set out in note 15.

Impairment and impairment reversals
The Group reviews the carrying values of its tangible and exploration and evaluation assets to determine whether there is any indication that those assets are impaired.

The recoverable amount of an asset, or cash-generating unit ('CGU'), is measured as the higher of fair value less costs to sell and value in use.

Management necessarily apply their judgement in allocating assets to CGUs as well as in making assumptions to be applied within the value in use calculation. The key assumptions which formed the basis of forecasting future cash flows and the value in use calculation are set out in note 6.

Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets. The impairment assessments are sensitive to changes in commodity prices, foreign exchange rates and discount rates. Changes to these assumptions would result in changes to conclusions in relation to impairment, which could have a significant effect on the consolidated financial statements. Details of impairment and/or impairment reversals are set out in note 6.

Close down and restoration costs
Costs associated with restoration and rehabilitation of mining sites are typical for extractive industries and are normally incurred at the end of the life of the mine. Provision is recognised for each mining site for such costs discounted to their net present value, as soon as the obligation to incur such costs arises. The costs are estimated on the basis of the scope of site restoration and rehabilitation activity in accordance with the mine closure plan and represent management's best estimate of the expenditure that will be incurred. Estimates are reviewed annually as new information becomes available.

The initial provision for close down and restoration costs together with other movements in the provision, including those resulting from updated cost estimates, changes to the estimated lives of the mines, and revisions to discount rates are capitalised within 'mine development costs' or 'mining assets' of property, plant and equipment. Capitalised costs are depreciated over the life of the mine they relate to and the provision is increased each period via unwinding the discount on the provision. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the asset and the provision.

The actual costs may be different from those estimated due to changes in relevant laws and regulations, changes in prices as well as changes to the restoration techniques. The actual timing of cash outflows may be also different from those estimated due to changes in the life of the mine as a result of changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provision for close down and restoration costs established which would affect future financial results.

Details of provision for close down and restoration costs are set out in note 22.

Going concern
Details about the Group's ability to continue as a going concern are set out in note 2.1.

4. Segment information

The Group's reportable segments under IFRS 8, which are aligned with its operating locations, were determined to be Pokrovskiy, Pioneer, Malomir and Albyn hard-rock gold mines which are engaged in gold and silver production as well as field exploration and mine development.

Corporate and Other segment amalgamates corporate administration, in-house geological exploration and construction and engineering expertise, engineering and scientific operations and other supporting in-house functions as well as various gold projects and other activities that do not meet the reportable segment criteria.

Reportable operating segments are based on the internal reports provided to the Chief Operating Decision Maker ('CODM') to evaluate segment performance, decide how to allocate resources and make other operating decisions and reflect the way the Group's businesses are managed and reported.

The financial performance of the segments is principally evaluated with reference to operating profit less foreign exchange impacts.

2017	Pioneer	Pokrovskiy	Malomir	Albyn	Corporate and other	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue						
Gold [a]	**202,392**	**40,687**	**83,098**	**228,915**	**-**	**555,092**
Silver	**743**	**121**	**42**	**185**	**-**	**1,091**
Other external revenue	**-**	**-**	**-**	**-**	**31,237**	**31,237**
Inter-segment revenue	**815**	**-**	**1,001**	**327**	**154,325**	**156,468**
Intra-group eliminations	**(815)**	**-**	**(1,001)**	**(327)**	**(154,325)**	**(156,468)**
Total Group revenue from external customers	**203,135**	**40,808**	**83,140**	**229,100**	**31,237**	**587,420**
Operating expenses and income						
Operating cash costs	**(127,657)**	**(39,988)**	**(61,079)**	**(98,354)**	**(30,030)**	**(357,108)**
Accrual for additional mining tax [b]	**(6,511)**	**(2,255)**	**(2,780)**	**(8,306)**	**-**	**(19,852)**
Depreciation	**(28,936)**	**(7,112)**	**(12,607)**	**(44,346)**	**(215)**	**(93,216)**
Central administration expenses	**-**	**-**	**-**	**-**	**(39,944)**	**(39,944)**
Reversal of impairment/ (impairment) of ore stockpiles	**3,589**	**(175)**	**(304)**	**1,592**	**-**	**4,702**
Impairment of gold in circuit	**(2,594)**	**(733)**	**(563)**	**-**	**-**	**(3,890)**
Impairment of non-trading loans	**-**	**-**	**-**	**-**	**(629)**	**(629)**
Total operating expenses [c]	**(162,109)**	**(50,263)**	**(77,333)**	**(149,414)**	**(70,818)**	**(509,937)**
Share of results of associates	**-**	**-**	**-**	**-**	**35,208**	**35,208**
Segment result	**41,026**	**(9,455)**	**5,807**	**79,686**	**(4,373)**	**112,691**
Foreign exchange losses						**(746)**
Operating profit						**111,945**
Investment income						**760**
Interest expense						**(25,905)**
Other finance gains						**2,199**
Other finance losses						**(28,470)**
Taxation						**(19,063)**
Profit for the period						**41,466**
Segment assets	**413,757**	**11,117**	**489,986**	**379,040**	**154,281**	**1,448,181**
Segment liabilities	**(35,777)**	**(7,583)**	**(14,474)**	**(35,949)**	**(74,781)**	**(168,564)**
Deferred tax – net						**(106,271)**
Unallocated cash						**2,236**
Loans given						**-**
Borrowings						**(596,474)**
Net assets						**579,108**
Other segment information						
Additions to non-current assets:						
Exploration and evaluation expenditure capitalised within intangible assets	**5,592**	**-**	**44**	**127**	**-**	**5,763**
Capital expenditure	**44,349**	**37**	**29,700**	**10,000**	**2,070**	**86,156**
Other items capitalised [d]	**26,438**	**355**	**8,540**	**1,052**	**-**	**36,385**
Average number of employees	**1,670**	**990**	**1,021**	**1,535**	**3,303**	**8,519**

(a) Including US$0.8 million contribution from the cash flow hedge.
(b) Amounts of mining tax for the six-month period to 31 December 2016, interest and penalties paid by the Group in 2017 following unfavorable court decisions.
(c) Operating expenses less foreign exchange losses (note 6).
(d) Interest capitalised and close down and restoration costs (note 13).

2016	Pioneer	Pokrovskiy	Malomir	Albyn	Corporate and other	Consolidated (restated)
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue						
Gold [e]	163,514	46,692	67,107	211,155	-	488,468
Silver	958	275	101	207	-	1,541
Other external revenue	-	-	-	-	50,675	50,675
Inter-segment revenue	-	-	1,233	390	101,032	102,655
Intra-group eliminations	-	-	(1,233)	(390)	(101,032)	(102,655)
Total Group revenue from external customers	164,472	46,967	67,208	211,362	50,675	540,684
Operating expenses and income						
Operating cash costs	(85,273)	(33,777)	(45,243)	(100,979)	(48,995)	(314,267)
Depreciation	(38,776)	(6,586)	(13,632)	(45,729)	(529)	(105,252)
Central administration expenses	-	-	-	-	(32,623)	(32,623)
Impairment of exploration and evaluation assets	-	-	-	(9,155)	-	(9,155)
(Impairment)/reversal of impairment of ore stockpiles	(6,110)	(1,002)	5,826	123	-	(1,163)
Gain on disposal of non-trading loans	-	-	-	-	6,724	6,724
Gain on disposal of subsidiaries	-	-	-	-	791	791
Total operating expenses [f]	(130,159)	(41,365)	(53,049)	(155,740)	(74,632)	(454,945)
Share of results of associates	-	-	-	-	(3,581)	(3,581)
Segment result	34,313	5,602	14,159	55,622	(27,538)	82,158
Foreign exchange losses						(5,158)
Operating profit						77,000
Investment income						556
Interest expense						(60,976)
Other finance gains						11,976
Other finance losses						(1,548)
Taxation						4,698
Profit for the period						31,706
Segment assets	444,611	19,724	402,878	390,646	133,894	1,391,753
Segment liabilities	(13,387)	(4,034)	(8,963)	(15,975)	(54,262)	(96,621)
Deferred tax – net						(119,028)
Unallocated cash						4,843
Loans given						598
Borrowings						(611,212)
Net assets						570,333
Other segment information						
Additions to non-current assets:						
Exploration and evaluation expenditure capitalised within intangible assets	2,219	-	838	4,082	217	7,356
Other additions to intangible assets	-	-	-	-	-	-
Capital expenditure	14,052	96	2,765	7,488	1,380	25,781
Other items capitalised [g]	349	177	389	1,262	-	2,177
Average number of employees	1,658	964	926	1,450	3,066	8,064

(e) Including US$(8.5) million net cash settlement paid by the Group under the cash flow hedge.
(f) Operating expenses less foreign exchange losses (note 6).
(g) Close down and restoration costs (note 13).

Entity wide disclosures

Revenue by geographical location [(a)]

	2017	2016
	US$'000	US$'000
Russia and CIS	**587,361**	540,606
Other	**59**	78
	587,420	540,684

(a) Based on the location to which the product is shipped or in which the services are provided.

Non-current assets by location of asset [(b)]

	2017	2016
	US$'000	US$'000
Russia	**1,181,197**	1,090,847
Other	**45**	43
	1,181,242	1,090,890

(b) Excluding financial instruments and deferred tax assets.

Information about major customers

During the years ended 31 December 2017 and 2016, the Group generated revenues from the sales of gold to Russian banks for Russian domestic sales of gold. Included in gold sales revenue for the year ended 31 December 2017 are revenues of US$555 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$414 million to Sberbank of Russia and US$142 million to VTB (2016: US$488 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US$292 million to Sberbank of Russia and US$197 million to VTB). The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management considers there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

5. Revenue

	2017	2016
	US$'000	US$'000
Sales of goods	**571,666**	522,491
Engineering and construction contracts	**15,045**	17,531
Rental income	**709**	662
	587,420	540,684
Investment income	**760**	556
	588,180	541,240

6. Operating expenses and income

	2017 US$'000	2016 US$'000
Net operating expenses [(a)]	450,324	419,519
Accrual for additional mining tax [(b)]	19,852	-
Impairment of exploration and evaluation assets	-	9,155
(Reversal of impairment)/ impairment of ore stockpiles [(a)]	(4,702)	1,163
Impairment of gold in circuit	3,890	-
Central administration expenses [(a)]	39,944	32,623
Foreign exchange losses	746	5,158
Impairment of non-trading loans	629	-
Gain on disposal of non-trading loans	-	(6,724)
Gain on disposal of subsidiaries	-	(791)
	510,683	460,103

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

Net operating expenses

	2017 US$'000	2016 US$'000
Depreciation	93,216	105,252
Staff costs	80,071	63,022
Materials	108,201	100,638
Fuel	43,793	40,621
External services	38,719	25,619
Mining tax	-	14,713
Electricity	30,074	23,305
Smelting and transportation costs	794	699
Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production	7,456	(22,475)
Taxes other than income	5,886	6,352
Insurance	8,214	6,409
Professional fees	297	877
Office costs	307	324
Operating lease rentals	3,352	3,173
Business travel expenses	1,274	1,434
Provision for impairment of trade and other receivables	364	282
Bank charges	258	205
Goods for resale	11,802	24,186
Other operating expenses	16,246	24,883
	450,324	419,519

Central administration expenses

	2017 US$'000	2016 US$'000
Staff costs	23,556	17,067
Professional fees	6,854	8,214
Insurance	928	789
Operating lease rentals	1,920	1,893
Business travel expenses	1,142	881
Office costs	533	489
Other	5,011	3,290
	39,944	32,623

Impairment charges

Impairment of mining assets and exploration and evaluation assets

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and supporting in-house service companies and concluded no impairment was required as at 31 December 2017. As at 31 December 2017, all exploration and evaluation assets on the balance sheet related to the areas adjacent to the existing mines (note 12).

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

	Year ended 31 December 2017	Year ended 31 December 2016
Long-term gold price	**US$1,300/oz**	US$1,200/oz
Discount rate [(a)]	**8%**	8%
RUB : US$ exchange rate	**RUB60 : US$1**	RUB60 : US$1

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

With all other assumptions being constant, changes to the aforementioned key assumptions could potentially result in impairment of certain mining assets as set out below.

	Potential impairment
10% decrease in long-term gold price	US$29 million
10% increase in discount rate	Recoverable amount exceeds carrying amount
10% strengthening of RUB/US$ exchange rate	Recoverable amount exceeds carrying amount

Impairment of ore stockpiles

The Group assessed the recoverability of the carrying value of ore stockpiles and recorded impairment charges/reversals of impairment as set out below:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Pre-tax impairment charge/ (reversal of impairment)	**Taxation**	**Post-tax impairment charge/ (reversal of impairment)**	Pre-tax impairment charge/ (reversal of impairment)	Taxation	Post-tax impairment charge/ (reversal of impairment)
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
Pokrovskiy	**175**	**(35)**	**140**	1,002	(200)	802
Pioneer	**(3,589)**	**717**	**(2,872)**	6,110	(1,223)	4,887
Malomir	**304**	**(61)**	**243**	(5,826)	1,165	(4,661)
Albyn	**(1,592)**	**271**	**(1,321)**	(123)	25	(98)
	(4,702)	**892**	**(3,810)**	1,163	(233)	930

7. Auditor's remuneration

The Group, including its overseas subsidiaries, obtained the following services from the Company's auditor and their associates:

	2017 US$'000	2016 US$'000
Audit fees and related fees		
Fees payable to the Company's auditor for the annual audit of the parent company and consolidated financial statements	**568**	577
Fees payable to the Company's auditor and their associates for other services to the Group:		
For the audit of the Company's subsidiaries as part of the audit of the consolidated financial statements	**296**	285
For the audit of subsidiary statutory accounts pursuant to legislation [(a)]	**57**	55
	921	917
Non-audit fees		
Other services pursuant to legislation – interim review	**231**	185
Fees for reporting accountants services [(b)]	**202**	1,153
Other services	**12**	-
	445	1,338

(a) Including the statutory audit of subsidiaries in the UK and Cyprus.
(b) Fees payable in relation to the issuance of the US$500 million 8.125 per cent Guaranteed Notes (note 20) (2016: Fees payable in relation the Proposed Acquisition announced on 28 April 2016).

8. Staff costs

	2017 US$'000	2016 US$'000
Wages and salaries	**81,619**	61,996
Social security costs	**21,696**	17,732
Pension costs	**168**	221
Share-based compensation	**144**	140
	103,627	80,089
Average number of employees	**8,519**	8,064

9. Financial income and expenses

	2017 US$'000	2016 US$'000
Investment income		
Interest income	**760**	556
	760	556
Interest expense		
Interest on bank loans	**(42,701)**	(48,934)
Interest on notes	**(5,308)**	-
Interest on convertible bonds	**(12,221)**	(11,867)
	(60,230)	(60,801)
Interest capitalised	**34,592**	-
Unwinding of discount on environmental obligation	**(267)**	(175)
	(25,905)	(60,976)
Other finance gains		
Fair value gain on derivative financial instruments [(a)]	**-**	7,434
Financial guarantee fee [(b)]	**2,199**	4,542
	2,199	11,976
Other finance losses		
Loss on bank debt refinancing [(c)]	**(21,577)**	(1,548)
Fair value loss on derivative financial instruments [(a)]	**(6,893)**	-
	(28,470)	(1,548)

(a) Result from re-measurement of the conversion option of the Convertible Bonds to fair value (note 20) and the Call Option over the Company's shares to fair value (note 18).
(b) Note 25.
(c) Note 20.

10. Taxation

	2017 US$'000	2016 US$'000
Current tax		
Russian current tax	**24,357**	29,788
	24,357	29,788
Deferred tax		
Reversal of timing differences [(a)]	**(5,294)**	(34,486)
Total tax charge/(credit)	**19,063**	(4,698)

(a) Including effect of foreign exchange movements in respect of deductible temporary differences of US$(7.5) million (year ended 31 December 2016: US$(26.0) million) which primarily arises as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

The charge for the year can be reconciled to the loss before tax per the income statement as follows:

	2017 **US$'000**	2016 US$'000
Profit before tax	**60,529**	27,008
Less: share of results of associates	**(35,208)**	3,581
Profit before tax (excluding associates)	**25,321**	30,589
Tax on profit (excluding associates) at the Russian corporation tax rate of 20% (2016: 20%)	**5,064**	6,118
Effect of the reduced corporation tax rate [b]	**(2,034)**	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	**912**	36
Tax effect of expenses that are not deductible for tax purposes [c]	**3,043**	1,765
Tax effect of tax losses for which no deferred income tax asset was recognised [d]	**25,237**	14,778
Utilisation of previously unrecognised tax losses	**(288)**	(2,574)
Foreign exchange movements in respect of deductible temporary differences [e]	**(7,512)**	(26,025)
Effect of the reduced corporation tax rate on previously recognised deferred tax[b]	**(4,283)**	-
Other adjustments	**(1,076)**	1,204
Tax charge/(credit) for the period	**19,063**	(4,698)

(b) Under the Russian Federal Law 144-FZ dated 23 May 2016 taxpayers who are participants to the Regional Investment Projects ("RIP") have the right to apply the reduced corporation tax rate if certain conditions are met. In 2017, LLC Albynskiy Rudnik has received tax relief as a RIP participant and is entitled to the reduced statutory corporation tax rate of 17% for the period of 10 years, subject to eligibility criteria. Relevant deferred tax balances were recalculated by applying the reduced tax rate accordingly.

(c) Primarily relate to the result of re-measurement of the conversion option of the Convertible Bonds to fair value (note 9) and certain professional fees incurred in relation to corporate projects.

(d) Primarily relate to central administration expenses and interest expense incurred in the UK.

(e) Foreign exchange movements arise as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

Tax laws, regulations and court practice applicable to the Group are complex and subject to frequent change, varying interpretations and inconsistent and selective enforcement. There are a number of practical uncertainties associated with the application of relevant tax legislation and there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be subject to tax claims and exposures. The Directors do not anticipate that these exposures will have a material adverse effect upon the Group's financial position.

11. Earnings per share

	2017 **US$'000**	2016 US$'000
Profit for the period attributable to equity holders of Petropavlovsk PLC	**42,378**	33,719
Interest expense on convertible bonds [a]	**-**	-
Profit used to determine diluted earnings per share	**42,378**	33,719
	No of shares	No of shares
Weighted average number of Ordinary Shares	**3,303,768,532**	3,302,148,536
Adjustments for dilutive potential Ordinary Shares [a]	**-**	-
Weighted average number of Ordinary Shares for diluted earnings per share	**3,303,768,532**	3,302,148,536
	US$	US$
Basic profit per share	**0.01**	0.01
Diluted profit per share	**0.01**	0.01

(a) Convertible bonds which could potentially dilute basic profit/(loss) per ordinary share in the future are not included in the calculation of diluted profit/(loss) per share because they were anti-dilutive for the year ended 31 December 2017 and 2016.

12. Exploration and evaluation assets

	Flanks of Pioneer US$'000	Flanks of Albyn US$'000	Flanks of Malomir US$'000	Other [a] US$'000	Total US$'000
At 1 January 2017	**1,750**	**33,949**	**12,148**	**1,423**	**49,270**
Additions	**5,592**	**127**	**44**	**-**	**5,763**
Transfer to mining assets	**(1,515)**	**-**	**-**	**-**	**(1,515)**
At 31 December 2017	**5,827**	**34,076**	**12,192**	**1,423**	**53,518**

(a) Amounts capitalised in respect of limestone, an essential reagent the pressure oxidation process, and underground water deposits to be used for the POX Hub operations.

	Visokoe US$'000	Flanks of Pioneer US$'000	Flanks of Albyn US$'000	Flanks of Malomir US$'000	Other [b] US$'000	Total US$'000
At 1 January 2016	16,251	-	39,080	11,375	2,287	68,993
Additions	213	1,750	4,082	776	535	7,356
Impairment [c]	-	-	(9,155)	-	-	(9,155)
Reallocation and other transfers	-		(58)	(3)	(269)	(330)
Disposal of subsidiary	(16,464)	-	-	-	-	(16,464)
Disposal	-	-	-	-	(1,130)	(1,130)
At 31 December 2016	-	1,750	33,949	12,148	1,423	49,270

(b) Amounts capitalised in respect of limestone, an essential reagent the pressure oxidation process, and underground water deposits to be used for the POX Hub operations.

(c) Impairment charges recorded against associated exploration and evaluation costs following the decision to suspend exploration on the Kharginskoye ore field, an immediate extension of the Albyn deposit.

13. Property, plant and equipment

	Mining assets	Non-mining assets	Capital construction in progress [c]	Total
	US$'000	US$'000	US$'000	US$'000
Cost				
At 1 January 2016	1,861,891	197,698	341,587	2,401,176
Additions	19,470	885	5,426	25,781
Close down and restoration cost capitalised (note 22)	2,177	-	-	2,177
Transfers from capital construction in progress	2,523	159	(2,682)	-
Disposals	(19,645)	(6,235)	(77)	(25,957)
Disposal of subsidiaries	(919)	(2,052)	(2,436)	(5,407)
Reallocation and other transfers	9,844	(808)	(8,856)	180
Foreign exchange differences	-	3,907	-	3,907
At 31 December 2016 [d]	1,875,341	193,554	332,962	2,401,857
Additions	**34,725**	**2,048**	**49,383**	**86,156**
Interest capitalised [a]	-	-	**34,592**	**34,592**
Close down and restoration cost capitalised (note 22)	**1,793**	**-**	**-**	**1,793**
Transfer from exploration and evaluation assets (note 12)	**1,515**	**-**	**-**	**1,515**
Transfers from capital construction in progress [b]	**22,397**	**4,042**	**(26,439)**	**-**
Disposals	**(8,856)**	**(4,731)**	**(72)**	**(13,659)**
Reallocation and other transfers	**1,727**	**(1,897)**	**170**	**-**
Foreign exchange differences	**-**	**1,245**	**4**	**1,249**
At 31 December 2017 [d]	**1,928,642**	**194,261**	**390,600**	**2,513,503**
Accumulated depreciation and impairment				
At 1 January 2016	1,182,974	173,375	6,484	1,362,833
Charge for the year	100,934	5,034	-	105,968
Disposals	(16,748)	(6,036)	-	(22,784)
Disposal of subsidiaries	-	(1,127)	-	(1,127)
Reallocation and other transfers	662	(662)	-	-
Foreign exchange differences	-	3,173	-	3,173
At 31 December 2016	1,267,822	173,757	6,484	1,448,063
Charge for the year	**90,862**	**2,708**	**-**	**93,570**
Disposals	**(8,062)**	**(5,196)**	**-**	**(13,258)**
Reallocation and other transfers	**192**	**2,213**	**(2,405)**	**-**
Foreign exchange differences	**-**	**1,014**	**-**	**1,014**
At 31 December 2017	**1,350,814**	**174,496**	**4,079**	**1,529,389**
Net book value				
At 31 December 2016 [e]	607,519	19,797	326,478	953,794
At 31 December 2017 [e]	**577,828**	**19,765**	**386,521**	**984,114**

(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 10% (2016: nil).
(b) Being costs primarily associated with continuous development of Malomir and Pioneer projects.
(c) Including US$277.6 million costs associated with the POX Hub project (31 December 2016: US$200.3 million).
(d) Including US$215.6 million of fully depreciated property, plant and equipment (31 December 2016: US$137.4 million)
(e) Property, plant and equipment with a net book value of US$nil million (31 December 2016: US$110.0 million) have been pledged to secure borrowings of the Group.

14. Investments in associates

	2017	2016
	US$'000	US$'000
IRC Limited ('IRC')	**70,890**	36,140
	70,890	36,140

Summarised financial information for those associates that are material to the Group is set out below.

	IRC Year ended 31 December 2017 US$'000	IRC Year ended 31 December 2016 US$'000
Non-current assets		
Exploration and evaluation assets	**7,259**	6,966
Property, plant and equipment	**458,624**	246,191
Prepayments for property, plant and equipment	**494**	87,499
Other non-current assets	**4,992**	4,773
	471,369	345,429
Current assets		
Cash and cash equivalents	**8,997**	31,342
Other current assets	**54,026**	44,184
	63,023	75,526
Current liabilities		
Borrowings (a)	**61,309**	66,147
Other current liabilities	**37,729**	21,414
	99,038	87,561
Non-current liabilities		
Borrowings (a)	**162,078**	177,239
Other non-current liabilities	**33,722**	34,431
	195,800	211,670
Net assets	**239,554**	121,724

(a) On 13 December 2010, K&S entered into a project finance facility agreement with the Industrial and Commercial Bank of China Limited ('ICBC') (the 'ICBC Facility Agreement') pursuant to which ICBC would lend US$340 million to K&S to be used to fund the construction of the IRC's mining operations at K&S. The facility is guaranteed by the Company (note 25) and originally was repayable semi-annually in 16 instalments US$21.25 million each, starting from December 2014 and is fully repayable by June 2022. On 27 February 2017, ICBC agreed to restructure two repayment instalments originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US$42.5 million evenly into five subsequent semi-annual repayment instalments. As a result, each of the repayment instalments due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 increased by US$8.5 million to an amount equal to US$29.75 million. The outstanding loan principal was US$233.75 million as at 31 December 2017 and 2016. As at 31 December 2017 and 2016, there was no undrawn finance facility available under the ICBC Facility Agreement. The loan is carried at amortised cost with effective interest rate 6.41% per annum (2016: 6.13%). ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2017, inclusive. As at 31 December 2017 and 31 December 2016, The Group's entire 31.1% ownership in the issued capital of IRC was pledged to ICBC as security for the obligations of the Company as guarantor and in consideration for the waiver of financial covenants under the ICBC facility.

	IRC Year ended 31 December 2017	IRC Year ended 31 December 2016
	US$'000	US$'000
Revenue	**109,265**	16,467
Net operating income/ (expenses)	**25,657**	(34,503)
including		
Depreciation	**(14,618)**	(1,155)
Reversal of impairment of mining assets	**129,614**	-
Impairment of ore stockpiles	**-**	(841)
Impairment of investments in joint ventures	**-**	(47)
Foreign exchange losses	**(859)**	(3,440)
Investment income	**114**	413
Interest expense	**(22,410)**	(1,189)
Taxation	**590**	(315)
Profit/(loss) for the period	**113,216**	(19,127)
Other comprehensive (loss)/profit	**(1,470)**	1,555
Total comprehensive profit	**111,746**	(17,572)

15. Inventories

	2017	2016
	US$'000	US$'000
Current		
Construction materials	**6,792**	5,072
Stores and spares	**57,226**	57,699
Ore in stockpiles [(a), (c)]	**37,496**	17,104
Gold in circuit	**24,088**	70,996
Deferred stripping costs	**39,767**	26,187
Bullion in process	**391**	1,189
Other	**6,892**	5,019
	172,652	183,266
Non-current		
Ore in stockpiles [(a), (b), (c)]	**72,720**	51,686
	72,720	51,686

(a) Note 6.
(b) Ore in stockpiles that is not planned to be processed within twelve months after the reporting period.
(c) As at 31 December 2017, ore in stockpiles include balances in the aggregate of US$31.1 million carried at net realisable value (2016: US$45.5 million).

16. Trade and other receivables

	2017	2016
	US$'000	US$'000
Current		
VAT recoverable	**20,438**	30,265
Advances to suppliers	**11,343**	11,394
Prepayments for property, plant and equipment	**5,809**	694
Trade receivables [(a)]	**9,297**	6,160
Other debtors [(b)]	**28,943**	41,917
	75,830	90,430

(a) Net of provision for impairment of US$0.2 million (2016: US$0.2 million). Trade receivables are generally due for settlement between three and twelve months.
(b) Net of provision for impairment of US$1.3 million (2016: US$1.3 million).

There is no significant concentration of credit risk with respect to trade and other receivables. The Group has implemented policies that require appropriate credit checks on potential customers before granting credit. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and credit ratings of its counterparties are monitored by the Board of Directors. The maximum credit risk of such financial assets is represented by the carrying value of the asset.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

17. Cash and cash equivalents

	2017	2016
	US$'000	US$'000
Cash at bank and in hand	**8,109**	10,284
Short-term bank deposits	**3,306**	2,358
	11,415	12,642

18. Derivative financial instruments

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
	US$'000	US$'000	US$'000	US$'000
Forward gold contracts – cash flow hedge [(a), (b), (c)]	**-**	**(32,477)**	7,478	-
Call Option over the Company's shares [(d)]	**-**	**(3,097)**	-	(3,064)
Conversion option [(e), (f)]	**-**	**(14,110)**	-	(7,250)
	-	**(49,684)**	7,478	(10,314)

(a) Forward contracts to sell an aggregate of 400,000 ounces of gold at an average price of US$1,252 per ounce are outstanding as at 31 December 2017 (31 December 2016: 50,006 ounces of gold at an average price of US$1,303 per ounce).

(b) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:
- gold forward curves observable at quoted intervals; and
- observable credit spreads.

(c) The hedged forecast transactions are expected to occur at various dates during the period to December 2019.

Gain and losses recognised in the hedging reserve in equity as at the reporting date will be recognised in the income statement in the periods during which the hedged gold sale transactions affect the income statement.

There was no ineffectiveness to be recorded from the cash flow hedge during the years ended 31 December 2017 and 2016.

(d) Cash settled call option issued in relation to 3.6 per cent. of the outstanding aggregate ordinary share capital in the Company exercisable between December 2018 and June 2019 at strike price of £0.068.

(e) Note 20.

(f) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:
- the Group's credit risk;
- historic share price volatility;
- the conversion price;
- time to maturity; and
- risk free rate.

19. Trade and other payables

	2017	2016
	US$'000	US$'000
Trade payables	**39,902**	24,110
Payables for property, plant and equipment	**10,389**	958
Advances from customers	**826**	2,148
Advances received on resale and commission contracts [(a)]	**1,029**	1,847
Accruals and other payables	**36,187**	26,575
	88,333	55,638

(a) Amounts included in advances received on resale and commission contracts at 31 December 2017 and 31 December 2016 relate to services performed by the Group's subsidiary, Irgiredmet, in its activity to procure materials such as reagents, consumables and equipment for third parties.

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

20. Borrowings

	2017 US$'000	2016 US$'000
Borrowings at amortised cost		
Notes [(a)]	**497,747**	-
Convertible bonds [(b)]	**91,590**	88,369
Bank loans [(c)]	**7,137**	522,843
	596,474	611,212
Amount due for settlement within 12 months	**7,137**	85,306
Amount due for settlement after 12 months	**589,337**	525,906
	596,474	611,212

(a) US$500 million Guaranteed Notes due for repayment on 14 November 2022 (the "Notes"), measured at amortised cost. The Notes were issued by the Group's wholly owned subsidiary Petropavlovsk 2016 Limited and are guaranteed by the Company and its subsidiaries JSC Pokrovskiy Rudnik, LLC Albynskiy Rudnik and LLC Malomirskiy Rudnik. The Notes have been admitted to the official list of the Irish Stock Exchange and to trading on the Global Exchange Market of the Irish Stock Exchange on 14 November 2017. The Notes carry a coupon of 8.125% payable semi-annually in arrears. The interest charged was calculated by applying an effective interest rate of 8.35%

(b) Debt component of the US$100 million Convertible Bonds due on 18 March 2020, measured at amortised cost. The interest charged was calculated by applying an effective interest rate of 13.89% to the liability component.

The conversion option of the US$100 million Convertible Bonds represents the fair value of the embedded option for the bondholders to convert into the equity of the Company (the "Conversion Right"). As the Company can elect to pay the cash value in lieu of delivering the Ordinary Shares following the exercise of the Conversion Right, the conversion option is a derivative liability. Accordingly, the conversion option is measured at fair value and is presented separately within derivative financial liabilities.

As at 31 December 2017, the fair value of debt component of the convertible bonds, considered as Level 2 of the fair value hierarchy, amounted to US$102.1 million (31 December 2016: US$97.3 million). Valuation incorporates the following inputs: the Group's credit risk, time to maturity and risk free rate.

As at 31 December 2017, the fair value of the convertible bonds, considered as Level 1 of the fair value hierarchy and calculated by applying the market traded price to the convertible bonds outstanding, amounted to US$116.3 million (31 December 2016: US$103.9 million).

(c) The weighted average interest rate during the year ended 31 December 2017 was 9.3% (2016: 9.0%).

The carrying value of the bank loans approximated their fair value at each period end.

As at 31 December 2017, there was no security and financial covenants attached to the bank loans (31 December 2016: Bank loans with an aggregate carrying value of US$233.1 million were secured against certain items of property, plant and equipment of the Group (note 13) and shares in subsidiaries held by Petropavlovsk PLC: 100% of LLC Albynskiy Rudnik; 89.73% of LLC Malomirskiy Rudnik; 100% of LLC Temi. Bank loans with an aggregate carrying value of $522.8 million contained certain financial covenants.)

21. Deferred taxation

	2017 US$'000	2016 (restated) US$'000
At 1 January	**119,028**	152,799
Deferred tax credited to income statement[(a)]	**(5,294)**	(34,486)
Deferred tax (credited)/charged to equity	**(7,505)**	711
Exchange differences	**42**	4
At 31 December	**106,271**	119,028
Deferred tax liabilities	**(106,271)**	(119,028)
Net deferred tax liability	**(106,271)**	(119,028)

(a) Note 10.

	At 1 January 2017 (restated) US$'000	Charged/ (credited) to the income statement US$'000	Credited directly to equity US$'000	Exchange differences US$'000	At 31 December 2017 US$'000
Property, plant and equipment	**96,024**	**(7,105)**	**-**	**59**	**88,978**
Inventory	**10,056**	**655**	**-**	**-**	**10,711**
Exploration and evaluation assets	**5,008**	**3,062**	**-**	**-**	**8,070**
Fair value adjustments	**129**	**(123)**	**-**	**-**	**6**
Other temporary differences	**7,811**	**(1,783)**	**(7,505)**	**(17)**	**(1,494)**
	119,028	**(5,294)**	**(7,505)**	**42**	**106,271**

	At 1 January 2016 (restated) US$'000	Charged/ (credited) to the income statement US$'000	Charged directly to equity US$'000	Exchange differences US$'000	At 31 December 2016 (restated) US$'000
Property, plant and equipment	119,234	(23,255)	-	45	96,024
Inventory	16,172	(6,116)	-	-	10,056
Exploration and evaluation assets	7,255	(2,247)	-	-	5,008
Fair value adjustments	246	(117)	-	-	129
Other temporary differences	9,892	(2,751)	711	(41)	7,811
	152,799	(34,486)	711	4	119,028

As at 31 December 2017, the Group did not recognise deferred tax assets in respect of the accumulated tax losses comprising US$698.7 million that can be carried forward against future taxable income (2016: US$620.2 million). Tax losses of US$531.0 million arise primarily in the UK and can be carried forward indefinitely, tax losses of US$167.6 million arise in Russia and can be carried forward indefinitely.

As at 31 December 2017, the Group did not recognise deferred tax assets of US$2.7 million (2016: US$2.6 million) in respect of temporary differences arising on property, plant and equipment.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries and associates as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. As at 31 December 2017, statutory unremitted earnings comprised in aggregate US$943.8 million (2016: US$839.4 million).

22. Provision for close down and restoration costs

	2017 **US$'000**	2016 US$'000
At 1 January	**19,152**	17,184
Unwinding of discount	**267**	175
Change in estimates[(a)]	**1,793**	2,177
Disposal of subsidiary	**-**	(384)
Amounts charged against provision	**(208)**	-
At 31 December	**21,004**	19,152

(a) Primarily reflects the effect of change in the forecast the Russian Rouble to the US Dollar exchange rate following continued appreciation of the Russian Rouble during the year ended 31 December 2017 and 2016.

The Group recognised provisions in relation to close down and restoration costs for the following mining operations:

	2017 **US$'000**	2016 US$'000
Pokrovskiy [(a)]	**3,195**	2,842
Pioneer	**2,876**	3,155
Malomir	**6,679**	6,049
Albyn	**8,254**	7,106
	21,004	19,152

(a) With the expected closure of Pokrovskiy mine in 2018, as the site is being transformed into a key component of the POX Hub, the associated amounts of close down and restoration costs will be attributed to the POX project accordingly.

The provision recognised represents the present value of the estimated expenditure that will be incurred, which has been arrived at using the long-term risk-free pre-tax cost of borrowing. The expenditure arises at different times over the life of mine. The expected timing of significant cash outflows is between years 2019 and 2033, varying from mine site to mine site.

23. Share capital

	2017		2016	
	No of shares	**US$'000**	No of shares	US$'000
Allotted, called up and fully paid				
At 1 January	**3,303,768,532**	**48,920**	3,300,561,697	48,874
Issued during the period	**-**	**-**	3,206,835	46
At 31 December	**3,303,768,532**	**48,920**	3,303,768,532	48,920

The Company has one class of ordinary shares which carry no right to fixed income.

24. Notes to the cash flow statement

Reconciliation of profit before tax to operating cash flow

	2017	2016
	US$'000	US$'000
Profit before tax	**60,529**	27,008
Adjustments for:		
Share of results of associate	**(35,208)**	3,581
Investment income	**(760)**	(556)
Interest expense	**25,905**	60,976
Other finance gains	**(2,199)**	(11,976)
Other finance losses	**28,470**	1,548
Share based payments	**144**	140
Depreciation	**93,216**	105,252
Impairment of exploration and evaluation assets	**-**	9,155
(Reversal of impairment)/ impairment of ore stockpiles	**(4,702)**	1,163
Effect of processing previously impaired stockpiles	**(12,948)**	(7,536)
Provision for impairment of trade and other receivables	**364**	282
Impairment of gold in circuit	**3,890**	-
Effect of processing previously impaired gold in circuit	**(1,315)**	-
Loss on disposals of property, plant and equipment	**67**	2,431
Gain on disposal of subsidiaries	**-**	(791)
Foreign exchange losses	**746**	5,158
Impairment of non-trading loans	**629**	-
Gain on disposal of non-trading loans	**-**	(6,724)
Other non-cash items	**(75)**	177
Changes in working capital:		
Decrease/(increase) in trade and other receivables	**26,515**	(25,828)
Decrease in inventories	**4,323**	298
Increase/(decrease) in trade and other payables	**16,715**	(37,745)
Net cash generated from operations	**204,306**	126,013

Reconciliation of cash flows used to purchase property, plant and equipment

	2017	2016
	US$'000	US$'000
Additions to property, plant and equipment	**86,156**	25,781
Non-cash additions to property, plant and equipment:		
Transfer from materials	**(600)**	-
Capitalised depreciation	**(207)**	(155)
Finance lease additions	**-**	(919)
	85,349	24,707
Associated cash flows:		
Purchase of property, plant and equipment	**82,295**	22,004
(Increase)/decrease in prepayments for property, plant and equipment	**(5,115)**	1,147
Increase in payables for property, plant and equipment	**9,431**	954
Cash movements presented in other cash flow lines:		
Changes in working capital	**(1,262)**	602
	85,349	24,707

Non-cash transactions
An equivalent of US$14.5 million of VAT recoverable was offset against additional mining tax (note 6). There were no other significant non-cash transactions during the years ended 31 December 2017 and 2016.

25. Related parties

Related parties the Group entered into transactions with during the reporting period

PJSC Asian-Pacific Bank ('Asian-Pacific Bank'), LLC Insurance Company Helios Reserve ('Helios') and Peter Hambro Limited are considered to be related parties as members of key management had an interest in and collectively exercise significant influence over these entities until 22 June 2017 when the Group lost significant influence over these companies.

The Petropavlovsk Foundation for Social Investment (the 'Petropavlovsk Foundation') is considered to be a related party due to the participation of the key management of the Group in the governing board of the Petropavlovsk Foundation and their presence in its board of guardians.

IRC Limited and its subsidiaries (Note 31) are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties which the Group entered into during the years ended 31 December 2017 and 2016 are set out below.

Trading Transactions

Related party transactions the Group entered into that relate to the day-to-day operation of the business are set out below.

	Sales to related parties		Purchases from related parties	
	2017	2016	**2017**	2016
	US$'000	US$'000	**US$'000**	US$'000
Asian-Pacific Bank				
Other	**3**	22	**35**	102
	3	22	**35**	102
Trading transactions with other related parties				
Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control	**-**	66	**1,301**	3,514
Associates				
IRC Limited and its subsidiaries	**85**	69	**2,062**	1,996
	85	135	**3,363**	5,510

During the year ended 31 December 2017, the Group made US$0.2 million charitable donations to the Petropavlovsk Foundation (2016: US$0.2 million).

The outstanding balances with related parties at 31 December 2017 and 2016 are set out below.

	Amounts owed by related parties at 31 December		Amounts owed to related parties at 31 December	
	2017	2016	**2017**	2016
	US$'000	US$'000	**US$'000**	US$'000
Helios and other entities in which key management have interest and exercises a significant influence or control [(b)]	**236**	1,383	**-**	1
Asian-Pacific Bank [(b)]	**-**	1	**-**	-
IRC Limited and its subsidiaries	**2,099**	14,502[(a)]	**527**	1,704
	2,335	15,886	**527**	1,705

(a) Including US$12.5 million advanced to IRC in December 2016. This balance was fully repaid in January 2017.
(b) PJSC Asian-Pacific Bank ("Asian-Pacific Bank"), LLC Insurance Company Helios Reserve ("Helios") and Peter Hambro Limited ceased being related parties to the Group from 22 June 2017.

Banking arrangements

The Group has current and deposit bank accounts with Asian-Pacific Bank.

The bank balances at 31 December 2017 and 2016 are set out below.

	2017	2016
	US$'000	US$'000
Asian-Pacific Bank	- [(c)]	629

(c) PJSC Asian-Pacific Bank ("Asian-Pacific Bank") ceased being related party to the Group from 22 June 2017.

Financing transactions

The Group has charged a fee for the provision of the guarantee to IRC (note 14), equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement and which amounted to US$4.1 million during the year ended 31 December 2017 (31 December 2016: US$4.5 million). The Guarantee fee principal outstanding amounted to an equivalent of US$6.4 million (31 December 2016:US$3.4 million).

Key management compensation

Key management personnel, comprising a group of 13 (2016: 15) individuals, including Executive and Non-Executive Directors of the Company and members of senior management, are those having authority and responsibility for planning, directing and controlling the activities of the Group.

	2017	2016
	US$'000	US$'000
Wages and salaries	**6,285**	6,103
Pension costs	**176**	182
Share-based compensation	**136**	610
	6,597	6,895

26. Analysis of net debt [(a)]

	At 1 January 2017 US$'000	Disposal of subsidiaries US$'000	Net cash Movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2017 US$'000
Cash and cash equivalents	**12,642**	**-**	**(1,605)**	**378**	**-**	**11,415**
Borrowings	**(611,212)**	**-**	**87,191**	**-**	**(72,453)**	**(596,474)**
Net debt [(a)]	**(598,570)**	**-**	**85,586**	**378**	**(72,453)** [(b)]	**(585,059)**

(a) Net debt is an Alternative Performance Measure (APM), which is not defined or calculated in accordance with IFRS. Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.
(b) Being amortisation of borrowings and the effect of the bank debt refinancing (note 20).

	At 1 January 2016 US$'000	Disposal of subsidiaries US$'000	Net cash Movement US$'000	Exchange movement US$'000	Non-cash changes US$'000	At 31 December 2016 US$'000
Cash and cash equivalents	28,239 [(c)]	(99)	(18,329)	2,831	-	12,642
Borrowings	(638,278)	-	84,710	173	(57,817)	(611,212)
Net debt [(a)]	(610,039)	(99)	66,381	3,004	(57,817) [(d)]	(598,570)

(c) Including US$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 29).
(d) Being amortisation of borrowings and the effect of the Refinancing.

27. Financial instruments and financial risk management

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to optimise the weighted average cost of capital and tax efficiency subject to maintaining sufficient financial flexibility to undertake its investment plans.

The capital structure of the Group consists of net debt (as detailed in note 26) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2017, the capital comprised US$1.2 billion (2016: US$1.2 billion).

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group adopts a modular approach in developing its projects in order to minimise upfront capital expenditure and related funding requirements. The Group manages in detail its funding requirements on a 12 month rolling basis and maintains a five year forecast in order to identify medium-term funding needs.

The Group is not subject to any externally imposed capital requirements.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the consolidated financial statements.

Categories of financial instruments

	2017 US$'000	2016 US$'000 (restated)
Financial assets		
Cash and cash equivalents	**11,415**	12,642
Derivative financial instruments	**-**	7,478
Loans and receivables	**37,615**	50,331
Available-for-sale investments	**347**	1,105
Financial liabilities		
Trade and other payables – at amortised cost	**71,653**	43,688
Borrowings – at amortised cost	**596,474**	611,212
Derivative financial instruments	**49,684**	10,314
Financial liabilities	**8,603**	9,229

Financial risk management

The Group's activities expose it to interest rate risk, foreign currency risk, risk of change in the commodity prices, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, gold price risk, credit risk and investment of excess liquidity.

Interest rate risk

The Group's fixed rate borrowings and are carried at amortised cost. They are therefore not subject to interest rate risk as defined in IFRS 7, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. The Group does not have borrowings with variable interest rates.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from fluctuations in currencies the Group transacts, primarily US Dollars, GB Pounds Sterling and Russian Roubles.

Exchange rate risks are mitigated to the extent considered necessary by the Board of Directors, through holding the relevant currencies. At present, the Group does not undertake any foreign currency transaction hedging.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at period end are set out below.

	Assets		Liabilities	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Russian Roubles	**40,101**	39,404	**55,740**	35,675
US Dollars [a]	**3,101**	5,355	**3,768**	4,700
GB Pounds Sterling	**2,560**	2,444	**3,173**	813
EUR	**-**	54	**763**	18
Other currencies	**-**	49	**313**	288

[a] US Dollar denominated monetary assets and liabilities in Group companies with Rouble functional currency.

The table set out below illustrates the Group's profit sensitivity to changes in exchange rates by 25% (2016: 25%), representing management's assessment of a reasonably possible change in foreign exchange currency rates. The analysis was applied to monetary assets and liabilities at the reporting dates denominated in respective currencies.

	2017 US$'000	2016 US$'000
Russian Rouble currency impact	**3,910**	932
US Dollar currency impact	**167**	164
GB Pounds Sterling currency impact	**153**	408
EUR currency impact	**191**	9
Other currencies	**78**	60

Credit risk
The Group's principal financial assets are cash and cash equivalents, comprising current accounts, amounts held on deposit with financial institutions and investments in money market and liquidity funds. In the case of deposits and investments in money market and liquidity funds, the Group is exposed to a credit risk, which results from the non-performance of contractual agreements on the part of the contract party. The Group is also exposed to a credit risk in relation to the amounts guaranteed under the ICBC facility (note 14).

The credit risk on liquid funds held in current accounts and available on demand is limited because the main counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Having performed a high level due diligence, management does not consider the credit risk associated with Asian-Pacific Bank and other banks without international credit rating to be high. Asian-Pacific Bank has a wide network of branches in the Amur region and, therefore, is extensively used by the entities of the precious metals segment (note 25).

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets recorded in the consolidated financial statements and the outstanding principal and interest under the ICBC facility (note 14).

The major financial assets at the balance sheet date are cash and cash equivalents held with the counterparties as set out below.

Counterparty	Credit rating	**Carrying amount at 31 December 2017 US$'000**	Carrying amount at 31 December 2016 US$'000
VTB	BB+	**6,559**	1,067
UBS	A+	**1,493**	212
AVANGARD	-	**1,436**	794
Sberbank	BBB-	**914**	3,936
Barclays	A	**660**	4,056
Asian-Pacific Bank	CCC	**78**	629
Bank of Cyprus	B-	**11**	365
Alfa-Bank	BB+	**7**	846

Commodity price risk
The Group generates most of its revenue from the sale of gold and iron ore concentrate. The Group's policy is to sell its products at the prevailing market price. In 2017 and 2016, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18).

Liquidity risk
Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group constantly monitors the level of funding required to meet its short, medium and long term obligations. The Group also monitors compliance with restrictive covenants set out in various loan agreements (note 20) to ensure there is no breach of covenants resulting in associated loans become payable immediately.

Effective management of liquidity risk has the objective of ensuring the availability of adequate funding to meet short-term requirements and due obligations as well as the objective of ensuring a sufficient level of flexibility in order to fund the development plans of the Group's businesses.

The table below details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The amounts disclosed are the contractual undiscounted cash flows and so these balances will not necessarily agree with the amounts disclosed in the balance sheet. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	0 - 3 months US$'000	3 months - 1 year US$'000	1 - 2 years US$'000	2 - 3 years US$'000	3 - 6 years US$'000
2017					
Borrowings					
- Convertible bonds	**-**	**-**	**-**	**100,000**	**-**
- Notes	**-**	**-**	**-**	**-**	**500,000**
- Loans	**-**	**4,006**	**-**	**-**	**-**
Future interest payments [(a)]	**2,395**	**51,229**	**49,625**	**42,875**	**81,250**
Trade and other payables	**48,396**	**23,257**	**-**	**-**	**-**
	50,791	**78,492**	**49,625**	**142,875**	**581,250**
2016					
Borrowings					
- Convertible bonds	-	-	-	-	100,000
- Loans	1,524	83,782	46,255	86,475	311,759
Future interest payments [(a)]	13,257	38,670	44,589	40,322	74,730
Trade and other payables	34,658	9,030	-	-	-
	49,439	131,482	90,844	126,797	486,489

(a) Future interest payments have been estimated using interest rates applicable at 31 December. There are no borrowings that are subject to variable interest rates and, therefore, subject to change in line with the market rates.

28. Operating lease arrangements

The Group as a Lessee

The Group incurred rental expense, primarily associated with rent of office premises and rent of mining fleet, as set out below.

	2017 US$'000	2016 US$'000
Minimum lease payments under operating leases recognised as an expense in the year	**5,256**	5,057

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under a non-cancellable operating lease for office premises, which fall due as follows:

	2017 US$'000	2016 US$'000
Expiring:		
Within one year	**369**	319
In two to five years	**123**	531
	492	850

The Group as a Lessor

The Group earned property rental income during the year of US$0.7 million (2016: US$0.7million) on buildings owned by its subsidiary Irgiredmet.

29. Capital commitments

At 31 December 2017, the Group had entered into contractual commitments in relation to the acquisition of property, plant and equipment and mine development costs amounting to US$19.1 million (31 December 2016: US$3.8 million) including US$17.6 million in relation to POX Hub project (31 December 2016: US$3.8 million).

Investment agreement with the Russian Ministry of Far East Development
On 14 December 2015, the Group entered into an investment agreement with the Russian Ministry of Far East Development (the ‘Investment Agreement’). The Investment Agreement involves provision of RUB5.5billion (an equivalent to c.US$91 million as at 31 December 2016) funding towards the construction of the electricity power line in the North-East of the Amur Region of Russia, where the Group’s Albyn and Malomir mines and adjacent licence areas are operated, during the period from 2015 to 2019. The funds are passed through the Group to the joint-stock company Far East Grid Distribution Company (‘DRSK’), which is required to engage a contractor to build the relevant power supply infrastructure. The Group’s responsibility under the Investment Agreement will be to monitor the progress and to report to the Russian Ministry of Far East Development. The Group is taking ultimate responsibility for the construction of the power line. Upon completion, the Group will get access to the enhanced capacity of the power supply infrastructure in the region. Under the terms of the Investment Agreement, the Group has certain capital commitments, including further development of Albyn and Malomir mines.

During 2017, the Group received an aggregate RUB1.8 billion (an equivalent to US$31.2 million) in funding under the Investment Agreement and transferred these funds to DRSK (2016: the Group received an aggregate RUB2.0 billion (an equivalent to US$30.8 million) in funding and transferred an aggregate RUB3.1 billion (an equivalent to US$47.7 million) to DRSK).

30. Reconciliation of non-GAAP measures (unaudited)

	2017 US$'000	2016 US$'000
Profit for the period	**41,466**	31,706
Add/(less):		
Investment income	**(760)**	(556)
Interest expense	**25,905**	60,976
Other finance gains	**(2,199)**	(11,976)
Other finance losses	**28,470**	1,548
Foreign exchange losses	**746**	5,158
Accrual for additional mining tax [(a)]	**19,852**	-
Taxation	**19,063**	(4,698)
Depreciation	**93,216**	105,252
Impairment of exploration and evaluation assets	**-**	9,155
(Reversal of impairment)/ impairment of ore stockpiles	**(4,702)**	1,163
Impairment of gold in circuit	**3,890**	-
Impairment of non-trading loans	**629**	-
Share of results of associates [(b)]	**(28,744)**	2,356
Underlying EBITDA [(c)]	**196,832**	200,084

(a) Amounts of mining tax for the six-month period to 31 December 2016, interest and penalties setlled by the Group in 2017 following unfavorable court decisions.
(b) Group's share of interest expense, investment income, other finance gains and losses, foreign exchange losses, taxation, depreciation and impairment/reversal of impairment recognised by an associate (note 14).
(c) Underlying EBITDA is an Alternative Performance Measure (APM), which is not defined or calculated in accordance with IFRS. Go to “The Use and Application of Alternative Performance Measures (APMs)” section for further information on our APMs.

31. Principal subsidiaries and other significant investments

The Group has the following principal subsidiaries and other significant investments, which were consolidated in this financial information.

Principal subsidiary, joint venture and associate undertakings	Country of incorporation	Principal activity	Proportion of shares held by Petropavlovsk PLC[a]		Proportion of shares held by the Group[a]	
			31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
Subsidiary						
JSC Management Company Petropavlovsk	Russia	Management company	**100%**	100%	**100%**	100%
Petropavlovsk 2010 Limited	Jersey	Finance company	**100%**	100%	**100%**	100%
Petropavlovsk 2016 Limited	Jersey	Finance company	**100%**	-	**100%**	-
JSC Pokrovskiy Rudnik	Russia	Gold exploration and production	**19.37%**	43.5%	**99.38%**	98.61%
LLC Malomirskiy Rudnik	Russia	Gold exploration and production	**-**	-	**99.94%**	99.86%
LLC Albynskiy Rudnik	Russia	Gold exploration and production	**-**	-	**100%**	100%
LLC Osipkan	Russia	Gold exploration and production	**-**	-	**100%**	100%
LLC Tokurskiy Rudnik	Russia	Gold exploration and production	**-**	-	**100%**	100%
LLC Rudoperspektiva	Russia	Gold exploration and production	**-**	-	**100%**	100%
LLC Temi	Russia	Gold exploration and production	-	-	**75%**	75%
LLC AGPK	Russia	Gold exploration and production	-	-	**99.38%**	98.61%
LLC PPOP	Russia	Gold exploration and production	-	-	**-**	98.61%
Universal Mining Inc.	Guyana	Gold exploration and production	-	-	**100%**	100%
LLC Kapstroi	Russia	Construction services	-	-	**100%**	100%
LLC NPGF Regis	Russia	Exploration services	-	-	**100%**	100%
CJSC ZRK Dalgeologiya	Russia	Exploration services	-	-	**99.38%**	98.61%
JSC PHM Engineering	Russia	Project and engineering services	-	-	**94%**	94%
JSC Irgiredmet	Russia	Research services	-	-	**99.69%**	99.69%
LLC NIC Gydrometallurgia	Russia	Research services	-	-	**100%**	100%
LLC BMRP	Russia	Repair and maintenance	-	-	**100%**	100%
LLC AVT-Amur	Russia	Production of explosive materials	-	-	**49%**	49%
LLC Transit	Russia	Transportation services	-	-	**100%**	100%
Pokrovskiy Mining College	Russia	Educational institute	-	-	**99.38%**	98.61%
Associate						
IRC Limited [b]	HK	Management and holding company	-	-	**31.10%**	31.10%
IRC and its principal subsidiary and joint venture undertakings ('IRC')						
IRC Limited	HK	Management and holding company	-	-	**31.10%**	31.10%
Principal subsidiaries of IRC						
LLC Petropavlovsk-Iron Ore	Russia	Management company	-	-	**31.10%**	31.10%
LLC Olekminsky Rudnik	Russia	Iron ore exploration and production	-	-	**31.10%**	31.10%
LLC KS GOK	Russia	Iron ore exploration and production	-	-	**31.10%**	31.10%
LLC Garinsky Mining & Metallurgical Complex	Russia	Iron ore exploration and production	-	-	**30.97%**	30.97%
LLC Kostenginskiy GOK	Russia	Iron ore exploration and production	-	-	**31.10%**	31.10%
LLC Orlovo-Sokhatinsky Rudnik	Russia	Iron ore exploration and production	-	-	**31.10%**	31.10%
JSC Giproruda	Russia	Engineering services	-	-	**21.85%**	21.86%
LLC SHMTP	Russia	Infrastructure project	-	-	**31.10%**	31.10%
LLC Amursnab	Russia	Procurement services	-	-	**31.07%**	31.07%
Heilongjiang Jiatal Titanium Co., Limited	China	Titanium sponge project	-	-	**31.10%**	31.10%
LLC Uralmining	Russia	Iron ore exploration and production	-	-	**31.10%**	31.10%
LLC Gorniy Park	Russia	Molybdenym project	-	-	**18.75%**	18.75%
Joint ventures of IRC						
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	Vanadium project	-	-	**14.31%**	14.31%

(a) In the ordinary class of shares.
(b) IRC Limited and its principal subsidiary and joint venture undertakings.

32. Related undertakings of the Group

The Group consists of the parent company, Petropavlovsk PLC, incorporated in the United Kingdom and its subsidiaries, associates and joint ventures. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned as at 31 December 2017 is disclosed below. The Group's principal subsidiaries and other significant investments are set out in note 31.

Name of undertaking	Country of incorporation	Proportion of shares held by the Group[(a)]	Registered address
Subsidiaries			
Aricom B Finance Plc	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Finance UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Services Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom Roubles Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom B Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Aricom B Roubles Treasury Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk Rouble UK Limited	UK	99.38%	11 Grosvenor Place, London, SW1X 7HH
Eponymousco Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Victoria Resources Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk Mining Treasury UK Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk Rouble Treasury Limited	UK	100%	11 Grosvenor Place, London, SW1X 7HH
Petropavlovsk 2010 Limited	Jersey	100%	13-14 Esplanade, St. Helier, JE1 1EE
Petropavlovsk 2016 Limited	Jersey	100%	13-14 Esplanade, St. Helier, JE1 1EE
Petropavlovsk (Jersey) Limited	Jersey	100%	13-14 Esplanade, St. Helier, JE1 1EE
Petropavlovsk Group Finance Limited	Guernsey	100%	PO Box 409, Elizabeth House, Ruette Braye, St. Peter Port, GY1 3WA
JSC Management Company Petropavlovsk	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
JSC Pokrovskiy Rudnik	Russia	99.38%	676150, Amur Region, Magdagachinskiy District, Tygda Village, Sovetskaya Street, 17
LLC Malomirskiy Rudnik	Russia	99.94%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Albynskiy Rudnik	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Osipkan	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Tokurskiy Rudnik	Russia	100%	676581, Amur Region, Selemdzhinskiy District, Tokur Village, Vorozhejkina Street, 16
LLC Rudoperspektiva	Russia	100%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Temi	Russia	75%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC AGPK	Russia	99.38%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Kapstroi	Russia	100%	675002, Amur Region, Blagoveshchensk, Amurskaya Street, 17
LLC NPGF Regis	Russia	100%	675027, Amur Region, Blagoveshchensk, Western Industrial Hub
CJSC ZRK Dalgeologiya	Russia	99.38%	680041, Khabarovskiy Region, Khabarovsk, Balashovskaya Street, 15
JSC PHM Engineering	Russia	94%	105082, Moscow, Rubtsov Pereulok, 13
JSC Irgiredmet	Russia	99.69%	664025, Irkutsk, Gagarina Boulevard, 38
LLC NIC Gydrometallurgia	Russia	100%	196247, St. Petersburg, Leninskiy Prospekt, 151
LLC BMRP	Russia	100%	675016, Amur Region, Blagoveshchensk, Kalinina Street, 137
LLC AVT-Amur	Russia	49%	675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1
LLC Transit	Russia	100%	676572, Amur Region, Selemdzhinskiy District, Fevralsk Urban Village, Vysotskogo Street, 1
Pokrovskiy Mining College	Russia	99.38%	676244, Amur Region, Zeya, Zolotogorskoe Shosse, 6
Universal Mining Inc.	Guyana	100%	Lot 8 Pere Street, Kitty, Georgetown
Petropavlovsk (Cyprus) Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Malomyrskiy Rudnik (Cyprus) Ltd	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Voltimand Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Horatio Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Sicinius Limited	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Syncrom High Corporation Ltd	Cyprus	100%	14 Souliou Street, Aglantzia, Nicosia, 2102
Cayiron Limited	Cayman Islands	100%	Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108
Associates			
IRC Limited	HK	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
Subsidiaries of IRC			
LLC Petropavlovsk- Iron Ore	Russia	31.10%	127055, Moscow, Lesnaya Street, 43, Office 313
LLC Olekminsky Rudnik	Russia	31.10%	676253, Amur Region, Tyndinskiy District, Village Olekma
LLC KS GOK	Russia	31.10%	679000, The Jewish Autonomous Region, Birobidzhan, 60-Letiya SSSR Street, Building 22B
LLC Garinsky Mining & Metallurgical Complex	Russia	30.97%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19

Name of undertaking	Country of incorporation	Proportion of shares held by the Group[a]	Registered address
LLC Kostenginskiy GOK	Russia	31.10%	679000, The Jewish Autonomous Region, Birobidzhan, 60-Letiya SSSR Street, Building 22B.
LLC Orlovo-Sokhatinsky Rudnik	Russia	31.10%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19
JSC Giproruda	Russia	21.85%	St. Petersburg, Leninskiy Avenue,151
LLC SHMTP	Russia	31.10%	682818, RF, Khabarovsk Territory, Town Sovetskaya Gavan, Pervomayskaya Street, 48A
LLC Amursnab	Russia	31.07%	127055, Moscow, Lesnaya Street, 43, Office 313
LLC Uralmining	Russia	31.10%	105082, Moscow, Spartakovskaya Square, 14, Building 1
LLC Gorniy Park	Russia	18.75%	101000, Moscow, Pokrovka Street,1/13/6 Building 2, Office 35
LLC Garinskaya Infrastructure	Russia	31.10%	675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19
LLC TOK	Russia	31.10%	676282, Amur Region, Tynda, Sovetskaya Street,1A
Lucilius Investments Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Kapucius Services Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Lapwing Limited	Cyprus	30.97%	Themistokli Dervi 12, Palais D' Ivoire, 2nd Floor, 1066 Nicosia
Russian Titan Company Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Brasenose Services Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Tenaviva Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Esimanor Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Metellus Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Dardanius Limited	Cyprus	31.09%	Souliou 14, Aglantzia, 2102 Nicosia
Rumier Holdings Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Guiner Enterprises Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Expokom Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Arfin Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Caedmon Limited	Cyprus	18.75%	Souliou 14, Aglantzia, 2102 Nicosia
Thorholdco (Cyprus) Limited	Cyprus	31.10%	Souliou 14, Aglantzia, 2102 Nicosia
Heilongjiang Jiatal Titanium Co., Limited	China	31.10%	668, Songxing Street, Jiamusi, Heilongjiang Province
Ariti HK Limited	Hong Kong	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
Ariva HK Limited	Hong Kong	31.10%	6H, 9 Queen's Road Central, Central, Hong Kong
Thorrouble Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Thordollar Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Thorholdco Limited	Cayman Islands	31.10%	P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205
Aricom UK Limited	UK	31.10%	11 Grosvenor Place, London, SW1X 7HH
Aricom Limited	UK	31.10%	11 Grosvenor Place, London, SW1X 7HH
Joint ventures of IRC			
Heilongjiang Jianlong Vanadium Industries Co., Limited	China	14.31%	Building 50, Block12, Advanced Business Park, No. 188.West Road, South Ring 4, Fengtai District, Bejing

(a) In the ordinary class of shares.

The Use and Application of Alternative Performance Measures (APMs)

Throughout this Press Release, when discussing the Group's financial performance, reference is made to APMs.

Each of the APMs is defined and calculated by the Group and as such they are non-IFRS measures because they may include or exclude certain items that an IFRS measure ordinarily would or would not take into account. APMs should not be regarded as an alternative or substitute for the equivalent measures calculated and presented in accordance with IFRS but instead should be seen as additional information provided to investors to enable the comparison of information between different reporting periods of the Group.

Although the APMs used by the Group may be calculated in a different manner and defined differently by other peers in the precious metals mining sector (despite being similar in title), they are nonetheless relevant and commonly used measures for the industry in which Petropavlovsk operates. These and similar measures are used widely by certain investors, analysts and other interested parties as supplemental measures of financial performance.

Some of the APMs form part of the Group's Key Performance Indicators (KPIs), which are used to monitor progress and performance against strategic objectives and to benchmark the performance of the business each year.

A discussion of the relevance of each APM as well as a description of how they are calculated is set out below, with reconciliation to IFRS equivalents from the consolidated IFRS financial statements (Consolidated Income Statement (IS), Consolidated Balance Sheet (BS), Consolidated Cash Flows Statement (CF) and the notes to the consolidated IFRS financial statements).

Total Cash Costs (TCC)

Definition

The total cash cost per ounce is the cost of producing and selling an ounce of gold from the Group’s four hard-rock operations.

Calculation

TCC are calculated by the Group as ***operating cash costs*** less co-product revenue. TCC per oz are calculated as total cash costs divided by the ounces of gold sold. TCC per oz are presented on a segment basis.

Operating cash costs are defined by the Group as ***operating cash expenses*** plus refinery and transportation costs, other taxes, mining tax and the amortisation of deferred stripping costs. This also equates to the Group’s segment result as reported under IFRS plus each segment’s share of results of associates, loss/gain on disposal of subsidiaries, impairment of ore stockpiles and gold in circuit, impairment of exploration and evaluation assets, impairment of mining assets, impairment of non-trading loans, central administration expenses, depreciation and accrual for additional mining tax minus each segment’s revenue from external customers. Operating cash costs are presented on a segment basis.

Operating cash expenses are defined by the Group as the total of staff costs, materials, fuel, electricity, other external services, other operating expenses, and the movement in ore stockpiles, work in progress and bullion in process attributable to gold production (excluding deferred stripping costs). The main cost drivers affecting ***operating cash expenses*** are stripping ratios, production volumes of ore mined / processed, recovery rates, cost inflation and fluctuations in the rouble to US dollar exchange rate.

Other companies may calculate this measure differently.

Relevance

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

Reconciliation

The tables below provide a reconciliation between operating expenses and total cash costs to calculate the cash cost per ounce sold for relevant periods.

2017	**Ref**	**Pioneer US$'000**	**Pokrovskiy US$'000**	**Malomir US$'000**	**Albyn US$'000**	**Corporate and other US$'000**	**Total US$'000**
Operating expenses	**IS**						**510,683**
Deduct:							
Foreign exchange losses	**note 6**						**(746)**
Accrual for additional mining tax	**note 6**						**(19,852)**
Depreciation	**note 6**						**(93,216)**
Reversal of impairment of ore stockpiles	**note 6**						**4,702**
Impairment of gold in circuit	**note 6**						**(3,890)**
Impairment of non-trading loans	**note 6**						**(629)**
Central administration expenses	**note 6**						**(39,944)**
Operating cash costs	**note 4**	**127,657**	**39,988**	**61,079**	**98,354**	**30,030**	**357,108**
Deduct:							
Corporate and other segment	**note 4**					**(30,030)**	**(30,030)**
Deduct: silver revenue	**note 4**	**(743)**	**(121)**	**(42)**	**(185)**	**-**	**(1,091)**
Total cash costs		**126,914**	**39,867**	**61,037**	**98,169**	**-**	**325,987**
Total ounces sold	oz	**160,421**	**32,250**	**65,678**	**181,485**		**439,834**
Total cash cost per ounce sold	**US$/oz**	**791**	**1,236**	**929**	**541**		**741**

2016	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
Operating expenses	IS						460,103
Deduct:							
Foreign exchange losses	note 6						(5,158)
Depreciation	note 6						(105,252)
Impairment of ore stockpiles	note 6						(1,163)
Impairment of exploration and evaluation assets	note 6						(9,155)
Gain on disposal of non-trading loans	note 6						6,724
Gain on disposal of subsidiaries	note 6						791
Central administration expenses	note 6						(32,623)
Operating cash costs	note 4	85,273	33,777	45,243	100,979	48,995	314,267
Deduct:							
Corporate and other segment	note 4	-	-	-	-	(48,995)	(48,995)
Deduct: silver revenue	note 4	(958)	(275)	(101)	(207)	-	(1,541)
Total cash costs		84,315	33,502	45,142	100,772	-	263,731
Total ounces sold	oz	133,605	38,151	54,760	173,342		399,858
Total cash cost per ounce sold	US$/oz	631	878	824	581		660

All in Sustaining Costs (AISC)

Definition

AISC includes both operating and capital costs required to sustain gold production on an ongoing basis, over and above the direct mining and selling costs shown by TCC.

Calculation

AISC are calculated by the Group as TCC plus/(minus) impairment/(reversal of impairment) of ore stockpiles and gold in circuit, central administration expenses, plus capitalised stripping at end of the period, minu capitalised stripping at beginning of the period, plus close-down and site restoration and sustaining capital and exploration expenditure. This is then divided by the ounces of gold sold. AISC are presented on a segment basis.

AISC are calculated in accordance with guidelines for reporting AISC as published by the World Gold Council in June 2013. Other companies may calculate this measure differently.

Relevance

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

Reconciliation

The tables below provide a reconciliation between total cash costs and all-in sustaining costs to calculate all-in sustaining cost per ounce sold for relevant periods.

2017	**Ref**	**Pioneer US$'000**	**Pokrovskiy US$'000**	**Malomir US$'000**	**Albyn US$'000**	**Corporate and other US$'000**	**Total US$'000**
Total cash costs		**126,914**	**39,867**	**61,037**	**98,169**	**-**	**325,987**
Add:							
(Reversal of impairment)/ impairment of ore stockpiles	**note 6**	**(1,347)**	**175**	**304**	**(1,592)**	**-**	**(2,460)**
Impairment of gold in circuit	**note 6**	**2,594**	**733**	**563**	**-**	**-**	**3,890**
Central administration expenses	**note 6**	**14,569**	**2,929**	**5,965**	**16,481**	**-**	**39,944**
Net capitalised stripping	**note 15**	**917**	**-**	**7,024**	**5,639**	**-**	**13,580**
Site restoration costs		**101**	**201**	**327**	**868**	**-**	**1,497**
Sustaining exploration expenditures		**5,993**	**37**	**3,789**	**6,318**	**-**	**16,137**
Sustaining capital expenditures		**15,351**	**159**	**4,929**	**4,510**	**-**	**24,949**
All-in sustaining costs		**165,092**	**44,101**	**83,938**	**130,393**	**-**	**423,524**
Total ounces sold	oz	**160,421**	**32,250**	**65,678**	**181,485**	-	**439,834**
All-in sustaining costs per ounce sold	**US$/oz**	**1,029**	**1,367**	**1,278**	**718**	**-**	**963**

2016	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
Total cash costs		84,315	33,502	45,142	100,772	-	263,731
Add:							
Impairment/ (reversal of impairment) of ore stockpiles	note 6	6,301	1,002	(30)	(123)	-	7,150
Central administration expenses	note 6	10,900	3,113	4,468	14,142	-	32,623
Net capitalised stripping	note 15	-	-	3,610	4,596	-	8,206
Site restoration costs		54	19	48	54	-	175
Sustaining capital expenditures		3,902	61	1,724	5,209	-	10,896
All-in sustaining costs		105,472	37,697	54,962	124,650	-	322,781
Total ounces sold	oz	133,605	38,151	54,760	173,342		399,858
All-in sustaining costs per ounce sold	US$/oz	789	988	1,004	719		807

All in Costs (AIC)

Definition

AIC comprises of AISC as well as capital expenditures for major growth projects or enhancement capital for significant improvements at existing operations.

Calculation

AIC are calculated by the Group as AISC plus non-sustaining exploration and capital expenditure and (reversal of impairment)/impairment of refractory ore stockpiles. This is then divided by the ounces of gold sold. AIC are presented on a segment basis.

AIC is calculated in accordance with guidelines for reporting AIC as published by the World Gold Council in June 2013. Other companies may calculate this measure differently.

Relevance

AIC reflect the costs of producing gold over the life-cycle of a mine.

Reconciliation

The tables below provide a reconciliation between all-in sustaining costs and all-in costs to calculate all-in cost per ounce sold for relevant periods.

2017	**Ref**	**Pioneer US$'000**	**Pokrovskiy US$'000**	**Malomir US$'000**	**Albyn US$'000**	**Corporate and other US$'000**	**Total US$'000**
All-in sustaining costs		**165,092**	**44,101**	**83,938**	**130,393**	**-**	**423,524**
Add: Reversal of impairment of ore stockpiles	**note 6**	**(2,242)**	**-**	**-**	**-**	**-**	**(2,242)**
Exploration expenditure		**5,592**	**-**	**44**	**127**	**-**	**5,763**
Capital expenditure		**18,237**	**-**	**22,972**	**-**	**-**	**41,209**
All-in costs		**186,679**	**44,101**	**106,954**	**130,520**	**-**	**468,254**
Total ounces sold	oz	**160,421**	**32,250**	**65,678**	**181,485**	-	**439,834**
All-in costs per ounce sold	**US$/oz**	**1,164**	**1,367**	**1,628**	**719**	**-**	**1,065**

2016	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Total US$'000
All-in sustaining costs		105,472	37,697	54,962	124,650	-	322,781
Add: Reversal of impairment of ore stockpiles	note 6	(191)	-	(5,796)	-	-	(5,987)
Exploration expenditure		8,455	76	1,887	6,172	-	16,590
Capital expenditure		1,037	-	836	1	-	1,874
All-in costs		114,773	37,773	51,889	130,823	-	335,258
Total ounces sold	oz	133,605	38,151	54,760	173,342		399,858
All-in costs per ounce sold	US$/oz	859	990	948	755		838

Average Realised Gold Sales Price

Definition

The average realised gold sales price is the mean price at which the Group sold its gold production output throughout the reporting period, including the realised effect of cash flow hedge contracts during the period.

Calculation

The average realised gold sales price is calculated by dividing total revenue received from gold sales (including the realised effect of any hedging contracts) by the total quantity of gold sold during the period. Other companies may calculate this measure differently.

Relevance

As gold is the key commodity produced and sold by the Group, the average realised gold sales price is a key driver behind the Group's revenues and profitability.

Reconciliation

The average realised gold price has been calculated as set out in the table below.

	Ref		**2017**	2016
Gold revenue	note 4	US$'000	**555,092**	488,468
Gold sold		ounces	**439,834**	399,858
Average realised gold price		US$/oz	**1,262**	1,222

Capital Expenditure (CAPEX)

Definition

CAPEX is the investment required by the Group to explore and develop its gold assets and keep current plants and other equipment at its gold mines in good working order.

Calculation

CAPEX represents cash flows used in investing activities, namely Purchases of property, plant and equipment and Expenditure of exploration and evaluation assets.

Relevance

Capital expenditure is necessary in order not only to maintain but also to develop and grow the business. Capex requirements need to be balanced in line with the Group's strategy and provide an optimal allocation of the Group's funds.

Reconciliation

The table below provides a reconciliation between capital expenditure and cash flows used in investing activities.

	Ref	**31 December 2017 US$'000**	31 December 2016 US$'000
Purchase of property, plant and equipment	CF	**82,295**	22,004
Expenditure on exploration and evaluation assets	CF	**5,763**	7,356
Total capital expenditure		**88,058**	29,360

Net Debt

Definition
Net Debt shows how indebted a company is after total debt and any cash (or its equivalent) are netted off against each other.

Calculation
Net Debt is calculated as the sum of current borrowings and non-current borrowings less cash and cash equivalents. Other companies may calculate this measure differently.

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

Reconciliation
The table below provides calculation of net debt at relevant reporting dates.

	Ref	**31 December 2017 US$'000**	31 December 2016 US$'000
Cash and cash equivalents	BS	**11,415**	12,642
Borrowings	BS	**(596,474)**	(611,212)
Net debt		**(585,059)**	(598,570)

Underlying EBITDA

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

Calculation
Underlying EBITDA is calculated as profit/(loss) for the period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, impairment charges and accrual for additional mining tax. Other companies may calculate this measure differently.

Relevance
Underlying EBITDA is an indicator of the Group's ability to generate opesrating cash flows, which are the source of funding for the Group's working capital requirements, capital expenditure and debt service obligations. The measure is also widely used by various stakeholders.

Reconciliation
The tables below provide reconciliations between net profit and Underlying EBITDA as well as reconciliation between operating profit and Underlying EBITDA for relevant periods.

	Ref	**2017 US$'000**	2016 US$'000
Profit for the period	IS	**41,466**	31,706
Add/(less):			
Investment income	IS	**(760)**	(556)
Interest expense	IS	**25,905**	60,976
Other finance gains	IS	**(2,199)**	(11,976)
Other finance losses	IS	**28,470**	1,548
Foreign exchange losses	note 6	**746**	5,158
Accrual for additional mining tax	note 6	**19,852**	-
Taxation	IS	**19,063**	(4,698)
Depreciation	note 6	**93,216**	105,252
Impairment of exploration and evaluation assets	note 6	**-**	9,155
(Reversal of impairment)/ impairment of ore stockpiles	note 6	**(4,702)**	1,163
Impairment of gold in circuit	note 6	**3,890**	-
Impairment of non-trading loans	note 6	**629**	-
Share in results of associates [a]	note 14	**(28,744)**	2,356
Underlying EBITDA		**196,832**	200,084

2017	Ref	**Pioneer US$'000**	**Pokrovskiy US$'000**	**Malomir US$'000**	**Albyn US$'000**	**Corporate and other US$'000**	**Consolidated US$'000**
Operating profit	IS						**111,945**
Foreign exchange losses	note 6						**746**
Segment result	note 4	**41,026**	**(9,455)**	**5,807**	**79,686**	**(4,373)**	**112,691**
Add/ (less):							
Accrual for additional mining tax	notes 4,6	**6,511**	**2,255**	**2,780**	**8,306**	**-**	**19,852**
Depreciation	notes 4,6	**28,936**	**7,112**	**12,607**	**44,346**	**215**	**93,216**
(Reversal of impairment) / impairment of ore stockpiles	notes 4,6	**(3,589)**	**175**	**304**	**(1,592)**	**-**	**(4,702)**
Impairment of gold in circuit	notes 4,6	**2,594**	**733**	**563**	**-**	**-**	**3,890**
Impairment of non-trading loans	notes 4,6	**-**	**-**	**-**	**-**	**629**	**629**
Share in results of associates [(a)]	note 14					**(28,744)**	**(28,744)**
Underlying EBITDA		**75,478**	**820**	**22,061**	**130,746**	**(32,273)**	**196,832**

2016	Ref	Pioneer US$'000	Pokrovskiy US$'000	Malomir US$'000	Albyn US$'000	Corporate and other US$'000	Consolidated US$'000
Operating profit	IS						77,000
Foreign exchange losses	note 6						5,158
Segment result	note 4	34,313	5,602	14,159	55,622	(27,538)	82,158
Add/ (less):							
Depreciation	notes 4,6	38,776	6,586	13,632	45,729	529	105,252
Impairment of exploration and evaluation assets	notes 4,6	-	-	-	9,155	-	9,155
Impairment/ (reversal of impairment) of ore stockpiles	notes 4,6	6,110	1,002	(5,826)	(123)	-	1,163
Share in results of associates [(a)]	note 14					2,356	2,356
Underlying EBITDA		79,199	13,190	21,965	110,383	(24,653)	200,084

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

Development of Group Refractory Reserves and POX Hub

Of Petropavlovsk's 20.86Moz of Resources and Reserves, 9.63Moz is classified as refractory. In order to unlock the value embedded in these ounces one of the most efficient, reliable and environmentally friendly methods, which is considered an industry standard was chosen - is pressure oxidation ('POX').

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

After being placed in 2013, to care and maintenance the POX Hub's full scale development works were resumed from the beginning of 2017, with the aim to commission the hub in Q4 2018.

The Group's expertise in pressure oxidation is principally represented by RDC Hydrometallurgy, a scientific research centre based in St. Petersburg and a POX pilot plant located in Blagoveshensk. During 2017 significant research and metallurgical tests took place, alongside ongoing support of the Pokrovskiy POX Hub engineering, procurement and construction. Test work and research included:

- Further tests to reconfirm and refine operational parameters
- Developing recommendations regarding the continuous maintenance of the pilot plant, including research on the durability of the various high pressure valves used at the test autoclave
- Research including metallurgical tests to further improve and optimise the processing of refractory concentrates of different mineralogical compositions
- Developing recommendations regarding optimal metallurgical testing for new refractory deposits and ore bodies
- Successful conclusion of test work and study, which focused on the thermal pre-treatment of refractory concentrate ahead of POX, indicates potential to increase recovery from Malomir concentrate from 92% (as budgeted) to 97%. This is yet to be incorporated in the POX design and yet to be reflected in the Group's production and financial projections.

Construction Progress

Malomir Flotation Plant (Design Capacity 5.4Mtpa)

The Malomir flotation plant is a staged build with the following two stages:

Stage 1 capacity is 3.6Mtpa across two parallel 1.8Mtpa lines. Construction of Stage 1 is complete with only some work outstanding, primarily on the flotation tailings facility. Flotation concentrate production is scheduled for the second quarter of 2018. Initially the concentrate will be stockpiled before being transported to the POX Hub site ahead of the staged autoclave commissioning, which is expected to start in Q4 2018.

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

Pokrovskiy POX Hub

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

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

A large amount of construction and installation work was carried out during 2017. The thickeners have been fully completed, which required skilled welding work. The tank equipment for the filter building has been welded, and about 60% of work on the Duplex and Super Duplex steel pipelines has been completed. During the year, most concrete and metal structure work has also been completed. In addition, the electric substation at Pokrovskiy which supplies electricity to the oxygen plant has been launched.

Key Construction Milestones

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

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

In Q3/4 2018, the POX Hub is scheduled to commence a staged dry and wet commissioning, one autoclave at a time. The commissioning of the oxygen plant is scheduled for Q2 2018 ahead of the autoclave commissioning. The ramp up to commercial production is due to occur throughout 2019.

Capital Costs

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

Selling Concentrate

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

Outlook

Pioneer Flotation Plant (design capacity 6.0Mtpa)

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

Note

♦ *Go to "The Use and Application of Alternative Performance Measures (APMs)" section for further information on our APMs.*

Underground Mines

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

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

Total Ore Reserves across Pioneer and Malomir now amount to 0.43Moz of gold at an average grade of 5.32g/t, a 16% increase compared to last year. It is estimated that these initial Reserves support a mine life of at least 6 years for Quartzitovoye and NE Bakhmut. The new Andreevskaya Reserves are non-refractory and are expected to contribute to Pioneer production from 2019; at present Andreevskaya's mine life is estimated at approximately two years. Preliminary metallurgical tests suggest Nikolaevskaya's underground Reserves are suitable for either RIP or POX processing. As POX is expected to result in better gold recovery, this material is currently conservatively classified as refractory, and as such mining is not scheduled until 2024, when refractory production at Pioneer is expected to reach full capacity. Group specialists continue metallurgical tests to improve Nikolaevskaya's RIP gold recovery. Should this work be successful, production from Nikolaevskaya may be brought forward. It is expected that Nikolaevskaya's current Reserves should support at least four years of production.

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

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

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

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

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

A total of 3,084m of underground development was completed at Quartzitovoye 1 during 2017. Ventilation and pumping facilities were also completed and Quartzitovoye is now a fully functioning, modern underground mine.

Reserve, Resources and Exploration Results

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

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

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

The main highlights of the latest Mineral Resource, Ore Reserve and Exploration update published on 5 of March 2018 include:

- 0.67Moz Au (c.8%) increase (before depletion)in Reserves and 1.17Moz Au (c.6%) increase (before depletion) in Resources across the Group's assets, of which c.70% is non-refractory
- 1.17Moz increase in JORC Resources (before depletion), mainly due to successful exploration of underground and open pit targets at Pioneer and Albyn
- 0.66Moz increase in JORC non-refractory Reserves (before depletion), mainly due to new reserves at our two flagship mines: - Pioneer (Nikolaevskaya, Katrin) - Albyn (Elginskoye and Unglichikan)
- 16% increase in total Reserves for underground mining from 0.37Moz to 0.43Moz and a 26% increase in underlying Mineral Resources from 0.74Moz to 0.93Moz, mainly at Pioneer's North-East Bakhmut, Andreevskaya and Nikolaevskaya Zones
- Identification of further down dip potential for underground resource and reserve expansion at Pioneer and Albyn
- First JORC Reserves and Resources identified at the recently discovered, highly promising non-refractory deposit Katrin, within the Pioneer license area
- Katrin ore body remains open in down-dip and western directions where exploration drilling continues; a further resource increase is expected in 2018
- Promising early stage exploration and prospecting results at Ulgen and Sukholozhskiy, Albyn - 3km long zone of mineralisation bearing similarities with the Group's c.2.8Moz Resource Elginskoye deposit proved at Ulgen
- High grade Sukholozhskiy Zone proved close to the Albyn pit with significant drill intersections as follows:
  - 2.3m@6.87g/t
  - 1.0m@9.40g/t
  - 1.7m@5.60g/t
  - 1.0m@6.30g/t
  - 7.3m@4.37g/t
  - 2.0m@37.10g/t
- Sukholozhskiy Zone yet to be further explored and included in the Resource estimate

The tables below provide a summary and an asset-by-asset breakdown of Group Mineral Resources and Ore Reserves. Further details on Group Mineral Resources and Ore Reserve estimates and on the exploration update can be found in the 6 of March press release and Group web site.

Group Total Ore Reserves as at 31/12/2017 (in accordance with the JORC Code 2012[(1)])									
Category	Non Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Metal (Moz)	Tonnage (kt)	Grade (g/t Au)	Metal (Moz)	Tonnage (kt)	Grade (g/t Au)	Metal (Moz)
Total Open Pit and Underground Ore Reserve									
Proven	19,587	0.69	0.43	19,180	1.06	0.65	38,767	0.87	1.09
Probable	103,383	1.09	3.62	109,742	0.98	3.45	213,125	1.03	7.06
Total (*P+P*)	**122,970**	**1.02**	**4.05**	**128,922**	**0.99**	**4.10**	**251,892**	**1.01**	**8.15**
Open Pit Ore Reserve									
Proven	19,397	0.62	0.39	19,180	1.06	0.65	38,577	0.84	1.04
Probable	101,597	1.02	3.33	109,192	0.96	3.35	210,790	0.99	6.68
Total (*P+P*)	**120,995**	**0.96**	**3.72**	**128,372**	**0.97**	**4.01**	**249,367**	**0.96**	**7.72**
Underground Reserve									
Proven	190	7.87	0.05	-	-	-	190	7.87	0.05
Probable	1,785	5.02	0.29	550	5.43	0.10	2,335	5.12	0.38
Total (*P+P*)	**1,975**	**5.30**	**0.34**	**550**	**5.43**	**0.10**	**2,525**	**5.32**	**0.43**

Notes:

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

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

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

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

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

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

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

– Pioneer: 5,009kt@0.68g/t (0.11Moz) of non-refractory and 4,417kt @ 0.68g/t (0.10Moz) of refractory
– Malomir: 484kt @ 2.59g/t of non-refractory and 2,013kt@0.86g/t (56koz) of refractory
– Albyn 2,345@1.27g/t (0.1Moz) of non-refractory

(8) Figures may not add up due to rounding

Group Mineral Resources as at 31/12/2017 (in accordance with the JORC Code 2012[(1)])									
Category	Non-Refractory			Refractory			Total		
	Tonnage (kt)	Grade (g/t Au)	Metal (Moz)	Tonnage (kt)	Grade (g/t Au)	Metal (Moz)	Tonnage (kt)	Grade (g/t Au)	Metal (Moz)
Total Open Pit and Underground Mineral Resource									
Measured	33,430	0.96	1.04	22,092	0.95	0.67	55,522	0.96	1.71
Indicated	218,702	0.96	6.78	207,468	0.84	5.61	426,170	0.90	12.39
Sub-total (*M+I*)	**252,133**	**0.96**	**7.82**	**229,560**	**0.85**	**6.29**	**481,693**	**0.91**	**14.10**
Inferred	105,818	1.00	3.41	151,095	0.69	3.35	256,913	0.82	6.76
Open Pit Mineral Resource									
Measured	33,287	0.94	1.01	22,092	0.95	0.67	55,380	0.95	1.68
Indicated	216,179	0.91	6.30	206,724	0.82	5.44	422,904	0.86	11.74

Sub-total (*M+I*)	**249,467**	**0.91**	**7.31**	**228,816**	**0.83**	**6.11**	**478,283**	**0.87**	**13.43**
Inferred	104,337	0.96	3.21	150,396	0.68	3.29	254,733	0.79	6.50
Underground Mineral Resource									
Measured	143	5.87	0.03	-	-	-	143	5.87	0.03
Indicated	2,523	5.88	0.48	743	7.27	0.17	3,267	6.19	0.65
Sub-total (*M+I*)	**2,666**	**5.88**	**0.50**	**743**	**7.27**	**0.17**	**3,409**	**6.18**	**0.68**
Inferred	1,481	4.17	0.20	699	2.62	0.06	2,181	3.67	0.26

Notes:

(1) Mineral Resources include Ore Reserves
(2) Mineral Resource estimates for Pokrovskiy, Pioneer, Malomir and Albyn were prepared internally by the Group in accordance with JORC Code 2012 as an update of the April 2017 statement audited by WAI; Mineral Resources for Tokur were reviewed by WAI in 2010 in accordance with JORC Code 2004and there have been no changes to the Tokur estimates since that date
(3) Open Pit Mineral Resources for Pokrovskiy, Pioneer, Malomir and Albyn are constrained by conceptual open-pit shells at a US$1,500/oz long term gold price; Tokur Mineral Resources have no open pit constraints
(4) The cut-off grade for Mineral Resources for open pit mining varies from 0.30 to 0.35g/t depending on the type of mineralisation and proposed processing method
(5) A cut-off grade of1.5g/t is used to report Mineral Resources for potential underground mining
(6) Mineral resources are not reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study
(7) Grade represents estimated contained metal in the ground and has not been adjusted for metallurgical recovery
(8) Figures may not add up due to rounding

IRC

On 27.03.2018 IRC has published its 2017 Annual Results stating the following:

“The Group has initiated the process of refinancing and obtaining an amendment and extension of its credit facilities. The amendment includes changes to the financial covenants and the repayment terms. The execution of the amendment is subject to the finalisation of required approval by the banks and documentation.

However, if the Group is unable to successfully refinance its loan facilities or the market conditions turn out to be significantly less favourable to the Group than predicted, the Group may not have sufficient working capital to finance its operations and loan repayments, resulting in its financial liquidity being adversely impacted. The Group would need to carry out contingency plans including entering into new negotiations with banks or other investors for additional debt or equity financing.

The directors of the Company consider that after taking into account the above, the Group will have sufficient working capital to finance its operations and to pay its financial obligations as and when they fall due in the foreseeable future. Accordingly, these consolidated financial statements have been prepared on a going concern basis.”