PETROPAVLOVSK

# PRESS RELEASE

28 August 2014

**Petropavlovsk PLC**

**Half-Year Report for the Period Ended 30 June 2014**

Petropavlovsk PLC ("Petropavlovsk", the "Company" or, together with its subsidiaries, the "Group") today issues its Half-Year Report for the period from 1 January 2014 to 30 June 2014 ("H1 2014" or the "Period").

Throughout this document, year-on-year ("yoy") comparisons refer to a period versus the comparative period in the previous year.

**Introducing the announcement, Peter Hambro, Chairman, said:**

*"The first half of 2014 was a period in which the Group continued its solid operational performance building on the progress made in 2013 and delivering on its new plan for strategic development.*

**Production, sales and revenue**
*In the first half of the year we achieved a record gold production of 306,400oz and increased our gold ounces sold by 5% yoy and, thanks to our selective forward sales activities, improved the price received by US$93/oz. This contributed to the total US$453 million of revenue.*

**Costs**
*During the same period, we achieved a 26% yoy decrease in total average cash costs to US$853/oz and a 16% yoy decrease in central administration costs to US$22.9 million.*

**EBITDA and pre-tax profit**
*As a result of the foregoing, EBITDA increased 41% to US$139.2 million and the Group produced a profit before tax of US$8 million - a welcome change from the US$615 million loss before tax recorded in H1 2013.*

**Cash Generation and net debt**
*The resulting US$104 million net operating cash flow (excluding IRC) together with a 58% reduction in capital expenditure (excluding IRC) enabled the Group to cut its net debt further. As at 30 June 2014, the Group had repaid US$142 million and its net debt totalled US$924 million.*

***Exploration, Resources and Reserves***
*At the same time, good progress was made in increasing the amount of the Group's non-refractory reserves and resources. 1.0Moz of new gold Resources were added to the Group's JORC Mineral Resource base (before depletion) and 0.5Moz to its JORC Reserves (before depletion). This more than covers the reserves depleted by production during the period.*

*From the previously announced 5.7Moz of non-refractory resources under the Russian Classification System, 3.1Moz of non-refractory resources and 0.82Moz of non-refractory reserves have now been converted to JORC. The JORC-based non-refractory reserves now total 4.47Moz.The work on conversion is ongoing.*

*The exploration success, together with the new discoveries such as those at Malomir's Berezoviy area (5m at 22g/t), gives confidence for the future.*

**IRC**
*Notwithstanding the decline in the iron ore price, our iron ore subsidiary, IRC, which is classed as an asset "held for sale", continues to make good progress. The development of its flagship, the new K&S mine, continues well and IRC expects to commence the commissioning of K&S at the end of the year. K&S is expected to quadruple IRC's production capacity with its 3.2mtpa plant and will significantly reduce costs with its forecast mine gate operating cost of US$45 per tonne.*

**Consolidated loss**
*In relation to IRC, we have recorded US$78.5 million of losses in the form of a) non-cash fair value adjustment in its carrying value on our books due to the IRC share price drop and b) its losses for the Period. The IRC impairment, together with other items, such as the US$14.8 million impairment of low grade stockpiles and US$3.9 million of impairment of certain exploration and evaluation assets, turned the Group's profit and loss account negative. However, this loss was 87% less than in the first half of 2013.*

**Refinancing**
*Our senior lenders have remained steadfast in their commitment to the Group and are willing to consider covenant relaxation as part of any refinancing, as is the Industrial and Commercial Bank of China Limited ("ICBC") which benefits from the guarantee that Petropavlovsk has given over IRC's project debt.*

*The process of this refinancing has required us to identify and engage with the holders of our 4.00% Guaranteed Convertible Bonds (ISIN: XS0482875811) due 15 February 2015 (the "Convertible Bonds" or "Bonds"). We believe that our efforts have identified the majority of the bondholders. Discussions with these holders have been constructive and are ongoing. The Group expects to be able to update the market more fully on this matter in the near future.*

**Outlook**
*For the full year, the Group remains on target to achieve 625,000oz of gold production at the lower end of its cost guidance range (US$900-950/oz) and, excluding the effects of any refinancing, to have its net debt reduced to c.US$850 million by the year end. From 2015, costs are expected to reduce further to c.US$750/oz, due to a major reduction in stripping volumes."*

**Financial highlights**

- Record H1 gold production of 306,400oz
- Group revenue of US$453.0 million, down 10% yoy, mainly due to a 12% yoy decrease in the average realised gold sales price partially offset by a 5% yoy increase in gold sold
- Average realised gold sales price of US$1,386/oz (H1 2013: US$1,579/oz), including a US$93/oz positive effect resulting from contracts to forward sell gold
- A c.25% yoy decrease in TCC/oz for our hard-rock mines to US$847/oz (H1 2013: US$1,136/oz) mainly due to:
  - An increase in grades processed at Albyn
  - An increase in recovery rates at Pokrovskiy, Albyn and Malomir
  - An increase in operational efficiencies
  - A 13% depreciation of the Rouble against the US Dollar which mitigated Rouble-denominated cost inflation
- A c.16% yoy decrease in central administration expenses (from US$27.1 million in H1 2013 to US$22.9 million in H1 2014), primarily due to cost-cutting measures

- US$104 million net cash from operating activities from continuing operations, up 53% compared to H1 2013 (US$68.1 million), despite a decrease in the average realised gold price and gold production remaining at a similar level to H1 2013. The increase in net cash from operating activities was mostly due to the lower cost of production and a US$37 million reduction in working capital

- A c.41% yoy increase in underlying EBITDA

- A c.58% decrease in capital expenditure on gold projects (from US$168.8 million in H1 2013 to US$70.2 million in H1 2014), in line with the Group's strategic aim to reduce its indebtedness, focusing mainly on:
  - Tailing dams and some infrastructure works at Malomir, Albyn and Pioneer
  - On-going exploration of prospective areas adjacent to the main mining operations
  - Restricting expenditure on the pressure oxidation ("POX") facilities to fulfilling pre-existing contractual obligations and undertaking essential maintenance work

- A c.87% yoy reduction in the total net loss for the Period (from US$742.2 million in H1 2013 to US$95.3 million in H1 2014) mainly due to the 5% increase in gold sold, a significant decrease in TCC/oz and, compared to H1 2013, much lower impairment charges

- A c.3% decrease in net debt (from US$948.4 million at 31 December 2013 to US$924 million at 30 June 2014), in line with the Group's strategy of net debt reduction and balance sheet optimisation

- Forward contracts to sell 225,446oz of gold at an average price of US$1,326/oz were outstanding as at 30 June 2014. Forward contracts to sell 163,134oz of gold at an average price US$1,314/oz were outstanding at the date of this announcement

**Operational highlights**

- The success of the Group's exploration programme and conversion of Russian reserves and resources into JORC resulted in the following changes to the Group's gold JORC Reserves and Resources statement during the Period:
  - An increase of c.1.00Moz in total JORC Mineral Resources (before depletion)
  - This includes an increase of c.0.5Moz in non-refractory Mineral Reserves (before depletion)
  - These increases are attributable to the Group's core projects in the Amur region

- Promising drill hole results at Malomir's Berezoviy area - c.22g/t at 5m thickness

- In H1 2014, all mines performed in line with the Group's budget

**FY 2014 outlook and update on refinancing**

- 625,000oz production target for FY 2014 maintained

- FY2014 TCC/oz expected to be at the lower end of the previous guidance of US$900/oz-US$950/oz. This takes into account an expected overall increase in TCC/oz in H2 2014 compared to H1 2014 due to the forecast increase of seasonal, higher-cost, alluvial gold production in the second half of the year

- FY2014 total capital expenditure programme is unchanged and remains at c.US$100 million

- Continued target for net debt at year-end to fall to c.US$850 million, excluding any effects from the implementation of the refinancing plan

- In line with its refinancing plan, the Company has made contact with the majority of the holders of its Convertible Bonds and carried out preliminary consultations which are expected to form the basis of the Group's final proposal in respect of a refinancing, which the Company is currently developing

- The Company has also made significant progress in discussions with its senior lenders on the relaxation of certain covenants in the Group's banking facilities

- Due to the focus on net debt reduction, no interim dividend is being declared

**ENQUIRIES**

| | |
|---|---|
| **Petropavlovsk PLC** | |
| Alya Samokhvalova | +44 (0) 20 7201 8900 |
| Rachel Mills | |
| **Maitland** | |
| Neil Bennett | +44 (0) 20 7379 5151 |
| George Trefgarne | |
| James Isola | |
| Seda Ambartsumian | |

**WEBCAST**

There will be a webcast presentation followed by a question and answer session today at 10.00am. Please log onto the Company's website, www.petropavlovsk.net, to view. To ask a question, please dial +44(0)20 3139 4830 and, when prompted, please enter the confirmation number 65157842#.

## FINANCIAL RESULTS SUMMARY

| | **Six months to 30 June 2014 (unaudited)** | Six months to 30 June 2013 (unaudited) | Variance | Year ended 31 December 2013 |
|---|---|---|---|---|
| Gold produced | **306.4koz** | 294.7koz | 4% | 741.2koz |
| Gold sold | **310.7koz** | 297.1koz | 5% | 736.3koz |
| Avg. realised gold price | **US$1,386/oz** | US$1,579/oz | (12%) | US$1,519/oz |
| Total average cash costs of hard-rock mines | **US$847/oz** | US$1,136/oz | (25%) | US$976/oz |
| Total average cash costs | **US$853/oz** | US$1,157/oz | (26%) | US$1,016/oz |
| Group revenue | **US$453.0m** | US$505.1m | (10%) | US$1,199.8m |
| Underlying EBITDA | **US$139.2m** | US$98.7m | 41% | US$324.6m |
| Profit/(loss) before tax | **US$8.3m** | (US$615.4m) | n/m | (US$522.7m) |
| Total net loss | **(US$95.3m)** | (US$742.2m) | (87%) | (US$713.2m) |
| Net loss attributable to equity shareholders of Petropavlovsk PLC | **(US$54.0m)** | (US$666.1m) | (92%) | (US$610.7m) |
| Basic loss per share | **(US$0.28)** | (US$3.39) | (92%) | (US$3.11) |
| Net cash from operating activities | **US$80.8m** | US$82.7m | (2%) | US$281.6m |
| From continuing operations | **US$104.0m** | US$68.1m | 53% | US$292.1m |
| From discontinued operations | **(US$23.2m)** | US$14.6m | n/m | (US$10.5m) |
| Final dividend paid | **-** | - | - | £0.02 |
| Interim dividend proposed/paid | **-** | - | - | - |

*Note: Figures may be rounded*

*(a) Underlying EBITDA is the profit for the Period before financial income, financial expenses, foreign exchange gains and losses, fair value changes, taxation, depreciation, amortisation and impairment charges. A reconciliation of loss for the year and underlying EBITDA is set out in note 24 to the financial statements.*

*(b) Exceptional items are those detailed in notes 5, 6, 7 and 21 to the financial statements.*

*(c) Net Debt is as set out in note 22 to the financial statements. As at 30 of June 2013, 31 December 2013 and 30 June 2014, net debt excludes IRC.*

**Chief Executive, Sergey Ermolenko, commented:**

*"The first six months of 2014 demonstrated the Group's ability to alter its development plan in a short period of time and against the backdrop of a challenging business environment. This was achieved following significant changes in market conditions in the previous year and the necessity to adjust the Group's operational activities to this new situation.*

*We started this work last year by introducing a new strategic development plan, which outlined the postponement of the implementation of our pressure oxidation ("POX") plant and the deleveraging of the Group. In order to achieve this plan, we needed to maximise our cash flows via significant cost reduction and to optimise the balance sheet. Accordingly, we developed a cost-optimisation plan which was implemented from May 2013.*

*The benefit of these efforts had already started becoming apparent by the end of last year: a c.20% reduction in H2 2013 average TCC/oz compared to H1 2013 was achieved, alongside a c.25% yoy decrease in central administration costs. These decreases resulted in greater net cash generation and contributed to a reduction in our net debt position at the end of last year.*

*In line with our targets, H1 2014 saw the continuation of this trend: further optimisation contributed to a c.26% yoy decrease in TCC/oz and c.16% yoy decrease in central administration expenses compared to the same period last year. These factors enabled us to achieve a further c.3% decrease in our net debt position since the year end. It is important to emphasise that the reduction in net debt was notwithstanding a c.12% yoy decrease in our average realised gold sales price, which was also the main driver in a c.10% reduction in Group revenue to US$453.0 million.*

*The backbone of our performance lies in operational efficiencies, which ultimately resulted in a c.4% yoy increase in total gold production, in spite of a continuing decline in the contribution from the mature Pokrovskiy mine and weaker performance at Pioneer. These factors were offset by the almost doubling of production at the Albyn mine, which is now delivering on its original production targets.*

*The reduction in the gold price was mitigated by the Group having entered into a series of forward sales contracts. This enabled us to achieve an average realised price of gold of US$1,386/oz; above the prevailing market price for the Period. The result was a contribution of an additional US$28.8 million to cash revenue reflecting an additional US$93/oz in the average realised gold price.*

*The c.26% reduction in TCC/oz in H1 2014 was largely due to the cost optimisation measures and forecast improvements in recovery rates and grades at some mines. The c.13% Rouble depreciation was also beneficial to our cost-reduction programme and helped to offset some cost inflation over the period.*

*Though the reduction in TCC/oz and central administration costs were the most important factors aiding the Group's performance, our efforts to optimise the working capital structure and capital expenditure programme were also very important contributors to our net debt reduction.*

*The combined effect of our efforts resulted in a c.41% yoy increase in underlying EBITDA and a c.87% yoy reduction in net loss for the Period.*

*It is important to note that capital expenditure was not reduced at the expense of future mining and processing operations, but was achieved through a re-scheduling of the implementation of the POX technology and re-focusing the Group's exploration programme. No cuts were made to our maintenance programme, the main purpose of which is to ensure the stable and efficient operation of plants and equipment at all mines.*

*The positive effects of our strategy of expenditure optimisation are evident in the Group's exploration activities when works focusing only on the Group's core assets were carried out resulting in a 33% yoy reduction in the FY 2013 exploration capex and a further c.6% yoy reduction in H1 2014. In spite of this, by the end of 2013 the Group was able to announce 5.7Moz of oxide material in various reserve and resource categories evaluated in accordance with the Russian Classification System. Of this 5.7Moz, during H1 2014 a total of 3.1Moz was converted into JORC-compliant Mineral Resources and 0.82Moz converted into JORC-compliant Ore Reserves of a similar or better quality.*

*The majority of new additions to our JORC Mineral Reserves and Ore Resources base are of non-refractory material, thus suitable for the Group's production plans for the near- to mid-term period.*

*The Group continues to work intensively and we are confident in our ability to build on the success of H1 2014; not only by confirming and translating additional reserves and resources from the Russian Classification System into JORC, but also by finding new, non-refractory mineralisation, exemplified by our most recent findings at Malomir's Berezoviy area. This is an area close to a known alluvial deposit, where drilling has recently identified grades of c.22g/t at 5m thickness. We are looking forward to further exploring this field, which is located only 10km from the Malomir plant.*

*We are not only anticipating success in relation to our exploration programme in H2 2014. Our stronger operational performance in H1 2014 enables us to look ahead with confidence at our full year production target and TCC/oz. We now expect our full-year TCC/oz guidance to be towards the lower level of our initial target, at c.US$900/oz, and we are pleased to reconfirm our production target of 625,000oz.*

*In H2 2014, we will continue to maintain our focus on cash flow generation and net debt reduction in order to achieve our year-end US$850 million net debt target, excluding any effects from the implementation of the refinancing which the Group is currently developing. This will be supported through a targeted c.50% decrease in total capital expenditure compared to H1 2014 and a continued focus on value-adding projects with a higher return on capital.*

*The hedging programme that was first implemented in 2013 gives us a stable platform from which to plan our future and, so long as uncertainty and high volatility remain, we may continue to use this sales method, should it continue to be available to us.*

*Our iron ore subsidiary, IRC, which is accounted for on a "held-for-sale" basis due to the status of the transactions concerning the subscription agreements with General Nice Development Limited ("General Nice") and Minmetals Cheerglory Limited ("Minmetals Cheerglory"), continues to grow and develop. Production rates in H1 2014 were above budget, which, combined with some efficiency gains, enabled IRC to mitigate part of the impact of a weaker iron ore price and the reduced by-product credit from lower ilmenite prices. Construction and development work at the larger mine, K&S, has been progressing.*

*More than 80% of General Nice's committed investment under the IRC subscription agreement has to date been received. Once General Nice has completed in full its Stage 2 subscription, under the terms of the subscription agreement, Minmetals Cheerglory, will also invest approximately US$30 million. We understand from IRC that it is in discussions with General Nice, Mr Cai Sui Xin (the controlling shareholder and Chairman of General Nice) and Minmetals Cheerglory about final completion."*

## FINANCIAL REVIEW

### Financial highlights

| | Six months to 30 June 2014 US$ million | Six months to 30 June 2013 Restated [a] US$ million |
|---|---|---|
| Continuing operations | | |
| Total attributable gold production ('000oz) | **306.4** | 294.7 |
| Gold sold ('000oz) | **310.7** | 297.1 |
| Group revenue | **453.0** | 505.1 |
| Average realised gold price (US$/oz) | **1,386** | 1,579 |
| Total average cash costs (US$/oz) | **853** | 1,157 |
| Total average cash costs for hard-rock mines (US$/oz) | **847** | 1,136 |
| Underlying EBITDA[b] | **139.2** | 98.7 |
| Profit/ (loss) before tax | **8.3** | (615.4) |
| Net loss for the period from continuing operations | **(16.8)** | (589.2) |
| Before exceptional items | **(16.8)** | (133.4) |
| Exceptional items [c] | **-** | (455.8) |
| Discontinued operations | | |
| Net loss for the period from discontinued operations | **(78.5)** | (153.0) |
| Before exceptional items | **(25.9)** | (9.9) |
| Exceptional items [c] | **(52.6)** | (143.1) |
| Total loss for the period | **(95.3)** | (742.2) |
| Before exceptional items | **(42.7)** | (143.3) |
| Exceptional items [c] | **(52.6)** | (598.9) |
| Basic loss per share | **(0.28)** | (3.39) |
| From continuing operations | **(0.10)** | (2.98) |
| From discontinued operations | **(0.18)** | (0.41) |
| Net cash from operating activities | **80.8** | 82.7 |
| From continuing operations | **104.0** | 68.1 |
| From discontinued operations | **(23.2)** | 14.6 |

(a) Following presentation of IRC as a discontinued operation.

(b) Reconciliation of loss for the period and underlying EBITDA is set out in note 24 to the condensed consolidated financial statements.

(c) Exceptional items are those detailed in notes 5, 6, 7 and 21 to the condensed consolidated financial statements.

| | 30 June 2014 US$ million | 31 December 2013 US$ million |
|---|---|---|
| **Cash and cash equivalents** | **63.8** | 170.6 |
| **Loans** | **(681.1)** | (818.7) |
| **Convertible bonds [d]** | **(306.7)** | (300.3) |
| **Net Debt** | **(924.0)** | (948.4) |

(d) The liability component of US$310.5 million convertible bonds due 18 February 2015 is measured at amortised cost.

**Revenue**

| | Six months to 30 June 2014 US$ million | Six months to 30 June 2013 Restated US$ million |
|---|---|---|
| Revenue from hard-rock mines and alluvial operations | **433.1** | 469.1 |
| Revenue from other operations | **19.9** | 36.0 |
| Total | **453.0** | 505.1 |

*Physical volumes of gold production and sales*

| | Six months to 30 June 2014 oz | Six months to 30 June 2013 oz |
|---|---|---|
| Gold sold from Pokrovskiy, Pioneer, Malomir, Albyn | **304,176** | 283,086 |
| Gold sold from alluvial operations | **6,519** | 14,032 |
| | **310,695** | 297,118 |
| Movement in gold in circuit and doré-bars | **(4,295)** | (2,418) |
| Total attributable production | **306,400** | 294,700 |

Group revenue during the Period was US$453.0 million, 10% lower than the US$505.1 million achieved in H1 2013.

Revenue from the hard-rock mines and alluvial operations was US$433.1 million, 8% lower than US$469.1 million achieved in H1 of 2013. Gold remains the key commodity produced and sold by the Group, comprising 95% of total revenue generated in H1 2014. The physical volume of gold sold increased by 5% from 297,118oz in H1 2013 to 310,695oz in H1 2014. This was offset by a 12% decrease in the average realised gold price from US$1,579/oz in H1 of 2013 to US$1,386/oz in H1 2014.

The Group sold 127,330oz ounces of silver in H1 of 2014 at an average price of US$21/oz, compared to 1,508 ounces in H1 2013 at an average price of US$32/oz.

Revenue generated as a result of third-party work by the Group's in-house service companies was US$19.9 million in H1 of 2014, a US$16.1 million decrease compared to US$36.0 million achieved in H1 2013.

*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 financing contracts to sell gold forward.

Forward contracts to sell an aggregate of 188,807 ounces of gold matured during H1 2014 and contributed US$28.8 million to cash revenue and US$93/oz to the average realised gold price.

Forward contracts to sell an aggregate of 225,446 ounces of gold at an average price of US$1,326 per ounce were outstanding as at 30 June 2014. Forward contracts to sell an aggregate of 163,134 ounces of gold at an average gold price of US$1,314 per ounce are outstanding as at the date of this announcement.

**Impairment review**

*Impairment of mining assets*
The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no further impairment was required as at 30 June 2014.

*Impairment of exploration and evaluation assets*
The Group performed a review of its exploration and evaluation assets and recorded US$3.9 million non-exceptional impairment charges against associated exploration and evaluation costs previously capitalized within intangible assets following the decision to suspend exploration at various licence areas, primarily located in the Amur region.

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

| | Pre-tax impairment charge /(reversal of impairment) US$ million | Taxation US$ million | Post-tax impairment charge/ (reversal of impairment) US$ million |
|---|---|---|---|
| Pioneer | **16.8** | **(3.4)** | **13.4** |
| Pokrovskiy | **0.9** | **(0.2)** | **0.7** |
| Malomir | **(2.9)** | **0.6** | **(2.3)** |
| | **14.8** | **(3.0)** | **11.8** |

**Exceptional items**

The Group has separately disclosed exceptional items, being significant items of income and expense, which due to their nature or the expected infrequency of the events that give rise to these items should, in the opinion of the Directors, be disclosed separately to enable a better understanding of the financial performance of the Group.

The effect of exceptional items on loss for the period is set out in the table below.

| | **Six months to 30 June 2014** | | | Six months to 30 June 2013 Restated | | |
|---|---|---|---|---|---|---|
| | **Before exceptional items** | **Exceptional tems** | **Total** | Before exceptional items | Exceptional items | Total |
| | **US$ million** | **US$ million** | **US$ million** | US$ million | US$ million | US$ million |
| Underlying EBITDA | **139.2** | **-** | **139.2** | 98.7 | - | 98.7 |
| Loss for the period from continuing operations | **(16.8)** | **-** | **(16.8)** | (133.4) | (455.8) | (589.2) |

## Underlying EBITDA and analysis of operating costs

| | Six months to 30 June 2014 | | | Six months to 30 June 2013 Restated | | |
|---|---|---|---|---|---|---|
| | **Before exceptional items** | **Exceptional items** | **Total** | Before exceptional items | Exceptional items | Total |
| | **US$ million** | **US$ million** | **US$ million** | US$ million | US$ million | US$ million |
| Loss for the period from continuing operations | **(16.8)** | **-** | **(16.8)** | (133.4) | (455.8) | (589.2) |
| Add/(less): | | | | | | |
| Interest expense | **36.6** | **-** | **36.6** | 37.8 | - | 37.8 |
| Investment income | **(0.9)** | **-** | **(0.9)** | (0.4) | - | (0.4) |
| Foreign exchange losses | **5.4** | **-** | **5.4** | 7.2 | - | 7.2 |
| Taxation | **25.1** | **-** | **25.1** | 34.9 | (61.1) | (26.2) |
| Depreciation | **71.2** | **-** | **71.2** | 121.5 | - | 121.5 |
| Impairment of mining assets and goodwill | **-** | **-** | **-** | - | 409.0 | 409.0 |
| Impairment of exploration and evaluation assets | **3.9** | **-** | **3.9** | 31.1 | 63.6 | 94.7 |
| Impairment of ore stockpiles | **14.8** | **-** | **14.8** | - | 44.3 | 44.3 |
| Underlying EBITDA | **139.2** | **-** | **139.2** | 98.7 | - | 98.7 |

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

| | Six months to 30 June 2014 | | | Six months to 30 June 2013 Restated | | |
|---|---|---|---|---|---|---|
| | **Before exceptional items** | **Exceptional items** | **Total** | Before exceptional items | Exceptional items | Total |
| | **US$ million** | **US$ million** | **US$ million** | US$ million | US$ million | US$ million |
| Pioneer | **74.0** | **-** | **74.0** | 107.2 | - | 107.2 |
| Pokrovskiy | **20.5** | **-** | **20.5** | 9.4 | - | 9.4 |
| Malomir | **17.3** | **-** | **17.3** | 0.0 | - | 0.0 |
| Albyn | **51.9** | **-** | **51.9** | 12.0 | - | 12.0 |
| Alluvial operations | **1.7** | **-** | **1.7** | (2.7) | - | (2.7) |
| | **165.4** | | **165.4** | 125.9 | | 125.9 |
| Corporate and other | **(26.2)** | **-** | **(26.2)** | (27.2) | - | (27.2) |
| Underlying EBITDA | **139.2** | **-** | **139.2** | 98.7 | - | 98.7 |

*Hard-rock mines and alluvial operations*

This Period, hard-rock mines and alluvial operations generated underlying EBITDA before exceptional items of US$165.4 million compared to US$125.9 million underlying EBITDA in H1 2013.

The average total cash costs per ounce for the Group decreased from US$1,157/oz in H1 2013 to US$853/oz in H1 2014. Total cash costs for hard-rock mines decreased from US$1,136/oz in H1 2013 to US$847/oz in H1 2014, primarily reflecting the effect of cost optimisation measures undertaken by the Group in response to the declining gold price environment, improvement in recovery rates at Pokrovskiy, Malomir and Albyn, increase in grades processed at Albyn and Rouble depreciation. The decrease in total cash costs resulted in a net US$94.5 million positive contribution to the underlying EBITDA compared to H1 2013. The decrease in the average realised gold price from US$1,579/oz in H1 2013 to US$1,386/oz in H1 2014, partially offset by the increase in physical ounces sold, reduced the aforementioned positive effect from the improvement of the total cash costs by US$55 million.

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 fluctuations in the Rouble to US Dollar exchange rate.

Compared with H1 2013 there was some inflation of Rouble denominated costs, in particular, electricity costs increased by up to 5%, cost of chemical reagents decreased by up to 15%, cost of diesel increased by up to 11% and consumables prices increased by up to 11%. The impact of Rouble price inflation was mitigated by the 13% average depreciation of the Rouble against the US Dollar, with the average exchange rate for the period going from 31.0 Roubles per US Dollar in H1 2013 to 35.0 Roubles per US Dollar in H1 2014.

Refinery and transportation costs are variable costs dependent on the production volume and comprise about 0.5% of the gold price. Mining tax is also a variable cost dependent on the production volume and the gold price realised. The mining tax rate is 6%.

| | **Six months to 30 June 2014** | | Six months to 30 June 2013 Restated | |
|---|---|---|---|---|
| | **US$ million** | % | US$ million | % |
| Staff costs | **54.6** | 23 | 75.2 | 23 |
| Materials | **84.1** | 36 | 104.9 | 32 |
| Fuel | **44.0** | 19 | 57.3 | 18 |
| Electricity | **20.0** | 8 | 24.6 | 8 |
| Other external services | **14.4** | 6 | 36.5 | 11 |
| Other operating expenses | **19.1** | 8 | 28.0 | 8 |
| | **236.2** | 100 | 326.5 | 100 |
| Movement in ore stockpiles, work in progress and bullion in process attributable to gold production [(a)] | **(11.8)** | | (47.0) | |
| Total operating cash expenses | **224.4** | | 279.5 | |

(a) Excluding deferred stripping

| | Hard-rock mines | | | | Alluvial operations | Total Six months to 30 June 2014 | Six months to 30 June 2013 Restated |
|---|---|---|---|---|---|---|---|
| | Pioneer US$ million | Pokrovskiy US$ million | Malomir US$ million | Albyn US$ million | US$ million | US$ million | US$ million |
| Revenue | | | | | | | |
| Gold | **173.1** | **48.2** | **67.7** | **132.5** | **9.0** | **430.5** | 469.1 |
| Silver | **1.7** | **0.5** | **0.2** | **0.2** | **0.0** | **2.6** | 0.0 |
| | **174.8** | **48.7** | **67.9** | **132.7** | **9.0** | **433.1** | 469.1 |
| **Expenses** | | | | | | | |
| Operating cash expenses | **82.4** | **24.7** | **44.2** | **66.5** | **6.6** | **224.4** | 279.5 |
| Refinery and transportation | **0.9** | **0.2** | **0.3** | **0.4** | **0.0** | **1.8** | 2.3 |
| Other taxes | **2.7** | **0.7** | **2.3** | **2.3** | **0.1** | **8.1** | 4.0 |
| Mining tax | **9.5** | **2.6** | **3.8** | **7.5** | **0.6** | **24.0** | 28.2 |
| Deferred stripping costs | **5.3** | **-** | **-** | **4.1** | **-** | **9.4** | 29.2 |
| Depreciation and amortisation | **19.5** | **11.7** | **10.2** | **26.7** | **2.6** | **70.7** | 119.9 |
| Impairment of exploration and evaluation assets | **-** | **3.5** | **-** | **-** | **0.4** | **3.9** | 0.1 |
| Impairment of ore stockpiles | **16.8** | **0.9** | **(2.9)** | **(0.0)** | **-** | **14.8** | - |
| **Operating expenses** | **137.1** | **44.3** | **57.9** | **107.5** | **10.3** | **357.1** | 463.2 |
| **Segment result before exceptional items** | **37.7** | **4.4** | **10.0** | **25.2** | **(1.3)** | **76.0** | 5.9 |
| *Segment EBITDA before exceptional items* | **74.0** | **20.5** | **17.3** | **51.9** | **1.7** | **165.4** | 125.9 |
| *Physical volume of gold sold, oz* | **124,936** | **34,814** | **48,865** | **95,561** | **6,519** | **310,695** | 297,118 |
| Cash costs | | | | | | | |
| Operating cash expenses | **82.4** | **24.7** | **44.2** | **66.5** | **6.6** | **224.4** | 279.5 |
| Refinery and transportation | **0.9** | **0.2** | **0.3** | **0.4** | **0.0** | **1.8** | 2.3 |
| Other taxes | **2.7** | **0.7** | **2.3** | **2.3** | **0.1** | **8.1** | 4.0 |
| Mining tax | **9.5** | **2.6** | **3.8** | **7.5** | **0.6** | **24.0** | 28.2 |
| Deferred stripping costs | **5.3** | **-** | **-** | **4.1** | **-** | **9.4** | 29.2 |
| **Operating cash costs** | **100.8** | **28.2** | **50.6** | **80.8** | **7.3** | **267.7** | 343.2 |
| Deduct: co-product revenue | **(1.7)** | **(0.5)** | **(0.2)** | **(0.2)** | **(0.0)** | **(2.6)** | (0.0) |
| **Total cash costs** | **99.1** | **27.7** | **50.4** | **80.6** | **7.3** | **265.1** | 343.2 |
| Total cash costs per oz for hard- rock mines, US$ | **793** | **795** | **1,032** | **843** | | **847** | 1,136 |
| Total average cash costs per oz, US$ | | | | | | **853** | 1,157 |

*Central administration expenses*

The Group has corporate offices in London, Moscow and Blagoveschensk which together represent the central administration function. Central administration expenses decreased by US$4.2 million from US$27.1 million in H1 2013 to US$22.9 million in H1 2014, primarily reflecting cost cutting measures undertaken by the Group.

*IRC*

The following transactions occurred subsequent to 31 December 2013 until the date of this announcement in connection with investment in IRC by General Nice Development Limited and Minmetals Cheerglory Limited:

- On 26 February 2014, IRC received subscription monies of HK$155.1 million (approximately US$20.0 million) from General Nice and accordingly allotted and issued 165,000,000 new shares to General Nice as a further partial subscription of General Nice Further Subscription Shares; and

- On 30 April 2014, IRC received subscription monies of HK$155.1 million (approximately US$20 million) from General Nice and accordingly allotted and issued 165,000,000 new shares to General Nice as a further partial subscription of General Nice Further Subscription Shares.

IRC are currently working together with General Nice and Minmetals to agree on a timely funding plan for the completion of the remaining HK$529 million (approximately US$68 million) share subscriptions.

As at 30 June 2014, the Group's interest in the share capital of IRC Limited was 45.39% (31 December 2013: 48.7%, 30 June 2013: 51.16%). As at 30 June 2014 and 31 December 2013, the Group is still considered to retain a sufficiently dominant voting interest to exercise de facto control over IRC on the basis of the size of the Group's shareholding and the relative size of the shareholding interests owned by other shareholders.

Assuming General Nice and Minmetals exercise their subscription rights in full, the Group's interest in the share capital of IRC will be diluted to 40.68% and, with another significant shareholder block in place, the Group will lose control over IRC and IRC will cease to be a subsidiary of the Group.

The dilution is expected to be completed within 12 months after the reporting date and, accordingly, IRC continues to be classified as "held for sale" and presented separately in the balance sheet as well as presented as a discontinued operation in the income statement.

This Period, the Group recorded US$25.9 million operating losses before exceptional items in relation to IRC and recognised US$18.1 million impairment against its Kuranakh mining assets.

The Group also recorded a further US$34.5 million write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell based on IRC's share price of HK$0.67 as at 30 June 2014 and reflect the change in the market share price of IRC share.

### Interest income and expense

| | **Six months to 30 June 2014** | Six months to 30 June 2013 Restated |
|---|---|---|
| | **US$ million** | US$ million |
| Investment income | **0.9** | 0.4 |

The Group earned US$0.9 million interest income on the cash deposits with banks.

| | **Six months to 30 June 2014** | Six months to 30 June 2013 Restated |
|---|---|---|
| | **US$ million** | US$ million |
| Interest expense | **42.8** | 47.3 |
| Less interest capitalised | **(6.4)** | (9.7) |
| Other | **0.3** | 0.2 |
| Total | **36.6** | 37.8 |

Interest expense for the Period was comprised of US$12.6 million effective interest on the Convertible Bonds and US$30.2 million interest on bank facilities. A further US$6.4 million of interest expense was capitalised as part of mine development costs within property, plant and equipment (H1 2013: US$9.7 million).

### Taxation

| | **Six months to 30 June 2014** | Six months to 30 June 2013 Restated |
|---|---|---|
| | **US$ million** | US$ million |
| Tax charge /(credit) | **25.1** | (26.2) |

The Group is subject to corporation tax under the UK, Russia and Cyprus tax legislation. The average statutory tax rate for H1 2014 was 22% in the UK and 20% in Russia.

This Period, the Group made corporation tax payments in aggregate of US$19.0 million in Russia (H1 2013: corporation tax payments in aggregate of US$17.8 million in Russia).

### Loss per share

| | **Six months to 30 June 2014** | Six months to 30 June 2013 Restated |
|---|---|---|
| Loss for the period from continuing operations attributable to equity holders of Petropavlovsk PLC | **US$17.8 million** | US$585.4 million |
| Weighted average number of Ordinary Shares | **196,423,244** | 196,400,199 |
| Basic loss per ordinary share from continuing operations | **US$0.10** | US$2.98 |

Basic loss per share for H1 2014 was US$0.10 compared to US$2.98 basic loss per share for H1 2013. The key factor affecting the basic loss per share was the decrease of net loss for the period attributable to equity holders of Petropavlovsk PLC from US$585.4 million for H1 2013 to US$17.8 million for H1 2014.

The total number of Ordinary Shares in issue as at 30 June 2014 was 197,638,425 (30 June 2013: 187,860,093).

## Financial position and cash flows

| | 30 June 2014<br>US$ million | 30 June 2013<br>US$ million |
|---|---|---|
| **Cash and cash equivalents** | **63.8** | 58.6 |
| **Loans** | **(681.1)** | (853.0) |
| **Convertible bonds** [(a)] | **(306.7)** | (359.7) |
| **Net Debt** | **(924.0)** | (1,154.1) |

(a) US$310.5 million convertible bonds at amortised cost

| | 30 June 2014<br>US$ million | 30 June 2013<br>US$ million |
|---|---|---|
| **Net cash from operating activities:** | | |
| Continuing operations | **104.0** | 68.1 |
| Discontinued operations | **(23.2)** | 14.6 |
| | **80.8** | 82.7 |
| **Net cash used in investing activities:** | | |
| Continuing operations | **(66.1)** | (154.8) |
| Discontinued operations | **(55.9)** | (25.7) |
| | **(122.0)** | (180.5) |
| **Net cash (used in)/from financing activities** | | |
| Continuing operations | **(142.7)** | (19.9) |
| Discontinued operations | **65.9** | 100.8 |
| Intra-group loan to discontinued operations | **-** | 10.0 |
| | **(76.8)** | 90.9 |

*Key movements in cash and net debt from continuing operations*

| | Cash US$ million | Debt US$ million | Net Debt US$ million |
|---|---|---|---|
| As at 1 January 2014 | **170.6** | **(1,119.0)** | **(948.4)** |
| Net cash generated by operating activities before working capital changes | **118.0** | **-** | |
| Decrease in working capital | **37.0** | **-** | |
| Income tax paid | **(19.0)** | **-** | |
| Capital expenditure on gold projects and in-house service companies | **(51.7)** | **-** | |
| Exploration expenditure on gold projects | **(18.5)** | **-** | |
| Amounts repaid under bank facilities | **(142.0)** | **142.0** | |
| Interest accrued | **-** | **(42.8)** | |
| Interest paid | **(32.0)** | **32.0** | |
| Other | **1.4** | **-** | |
| As at 30 June 2014 | **63.8** | **(987.8)** | **(924.0)** |

The decrease in working capital reflects the efforts undertaken by the Group to optimise the working capital structure, including:

- The partial processing of ore stockpiles and reduction of mining costs at Pioneer and Malomir which contributed US$14.6 million and US$6.8 million, respectively, to the aggregate US$20.3 million decrease in ore stockpiles; and
- A US$17.3 million decrease in stores and spares

As at 30 June 2014 there were no undrawn facilities available to the continuing operations.

**Capital expenditure**

The Group spent an aggregate of US$70.2 million on its gold projects compared to US$168.8 million invested in H1 2013. The key areas of focus this period were on fulfilling existing contractual commitments in relation to POX, expansion of the tailing dams at Pioneer and Albyn and on-going exploration related to the areas adjacent to the ore bodies of the main mining operations.

| | Exploration expenditure | Development expenditure and other CAPEX | Total |
|---|---|---|---|
| | US$ million | US$ million | US$ million |
| POX | **-** | **29.6** | **29.6** |
| Pokrovskiy and Pioneer | **8.5** | **6.9** | **15.4** |
| Malomir | **4.2** | **2.2** | **6.4** |
| Albyn | **5.0** | **10.5** | **15.5** |
| Visokoe | **0.2** | **-** | **0.2** |
| Alluvial operations | **0.1** | **1.0** | **1.1** |
| Upgrade of in-house service companies | **-** | **1.3** | **1.3** |
| Other | **0.5** | **0.2** | **0.7** |
| **Total invested in Gold Division** | **18.5** | **51.7** | **70.2** |

**Foreign currency exchange differences**

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

| | **30 June 2014** | 30 June 2013 |
|---|---|---|
| GB Pounds Sterling (GBP: US$) | **0.58** | 0.66 |
| Russian Rouble (RUR : US$) | **33.63** | 32.71 |

The Group recognised foreign exchange losses of US$5.4 million in H1 2014 (H1 2013: foreign exchange losses of US$7.2 million) arising primarily on Russian Rouble denominated net monetary assets and GB Pounds Sterling denominated net monetary liabilities.

**Going concern**

Following the significant decline in the gold price in the course of 2013 and subsequent revision of the Group's plans in 2013, in the absence of refinancing the Group will breach covenants in its banking facilities at 31 December 2014. In addition the US$310.5 million outstanding Convertible Bonds are due for repayment in February 2015 and the Group does not currently have sufficient committed facilities or available funds to refinance this debt.

As explained in the Chairman's Statement, the Group has initiated a refinancing plan which includes negotiating with the Group's senior lenders and ICBC (on the relaxation of the covenants in banking facilities) and refinancing its Convertible Bonds. Based on the negotiations conducted to date, the Directors have a reasonable expectation that the Group will receive sufficient relaxation or waivers of the relevant financial covenants in its banking facilities to avoid breaching those and will refinance its Convertible Bonds maturing in February 2015.

The Directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the refinancing will be concluded successfully and the Group will therefore 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 2014 Half-Year Report and the condensed consolidated interim financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements.

## OPERATIONS REPORT

### Operational highlights:

Production:
- Record H1 gold production of 306,400oz
- The Group remains on track to achieve its full-year production target of 625,000oz

Total cash costs:
- A 26% decrease in total average cash costs to US$853/oz compared to H1 2013 (US$1,157/oz)
- A decrease in total cash costs across all mines compared to H1 2013: Pioneer by 14% to US$793/oz Pokrovskiy by 42% to US$795/oz, Malomir by 33% to US$1,032/oz and Albyn by 35% to US$843/oz
- FY2014 TCC/oz expected to be at the lower end of the previous guidance of US$900/oz-US$950/oz

### Summary of gold production and total cash costs

| | **Six months to 30 June 2014** | Six months to 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|
| **Hard-rock mines** | | | |
| **Pioneer** | | | |
| Gold production ('000oz) | **124.3** | 143.9 | 314.8 |
| Total cash costs (US$/oz) | **793** | 922 | 887 |
| **Pokrovskiy** | | | |
| Gold production ('000oz) | **30.3** | 36.6 | 91.2 |
| Total cash costs (US$/oz) | **795** | 1,372 | 1,180 |
| **Malomir** | | | |
| Gold production ('000oz) | **46.8** | 38.5 | 115.5 |
| Total cash costs (US$/oz) | **1,032** | 1,547 | 1,027 |
| **Albyn** | | | |
| Gold production ('000oz) | **97.3** | 51.1 | 134.8 |
| Total cash costs (US$/oz) | **843** | 1,293 | 1,006 |
| **Total production for hard-rock mines ('000oz)** | **298.7** | 270.1 | 656.4 |
| **Total average cash costs for the Group's hard-rock mines (US$/oz)** | **847** | 1,136 | **976** |
| **Alluvial operations** | | | |
| Gold production ('000oz) | **7.7** | 24.6 | 84.8 |
| **Total gold production ('000oz)** | **306.4** | 294.7 | 741.2 |
| **Total average cash costs (US$/oz)** | **853** | 1,157 | 1,016 |

*Note: Figures may not add up due to rounding*

## PIONEER

Pioneer produced approximately 124,300oz in H1 2014, in line with the mine plan. This was less than the comparative period in 2013 primarily due to a scheduled decrease in grades.

### *Mining and Processing*

During H1 2014, the western section of the Andreevskaya pit and pit 6.3 at NE Bakhmut were completed and backfilling of these pits commenced. The pushback of the western wall of Andreevskaya East and the north wall of pit 6.2 at NE Bakhmut commenced and mining continued at pit 6.1 at NE Bakhmut. Mining of soft oxidized ores was intensified in pit 1 and the southwest flank of pit 2 in order to achieve a suitable blend to maintain throughput at the plant, which operated in line with the Group's forecast. Low-grade ore for feed to both the heap leach and the processing plant commenced at pit 7 at the end of Q2 2014.

**Pioneer mining operations**

| | *Units* | **Six months to 30 June 2014** | Six months to 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|---|
| Total material moved | *'000m$^3$* | **13,120** | 16,163 | 30,825 |
| Ore mined | *t '000* | **3,240** | 2,409 | 4,588 |
| Average grade | *g/t* | **1.5** | 1.9 | 2.0 |
| Gold content | *'000oz* | **153.2** | 144.2 | 301.6 |
| **Pioneer processing operations** | | | | |
| Resin-in-pulp ("RIP") plant | | | | |
| Total milled | *'000t* | **3,152** | 3,334 | 6,583 |
| Average grade | *g/t* | **1.5** | 1.6 | 1.8 |
| Gold content | *'000oz* | **152.3** | 173.3 | 371.3 |
| Recovery rate | *%* | **80** | 81 | 82.0 |
| Gold recovered | *'000oz* | **122.0** | 140.1 | 304.5 |
| Heap leach operations | | | | |
| Ore stacked | *t '000t* | **354** | 478 | 1,005 |
| Average grade | *g/t* | **0.6** | 0.7 | 0.7 |
| Gold content | *'000oz* | **6.9** | 10.6 | 21.0 |
| Recovery rate | *%* | **34** | 36 | 48.9 |
| Gold recovered | *'000oz* | **2.3** | 3.8 | 10.3 |
| Total gold recovered | *'000oz* | **124.3** | 143.9 | 314.8 |

### *Costs*

Total cash costs for Pioneer for H1 2014 were US$793/oz, a reduction of 14% on the comparative period in 2013 (US$922/oz) as a result of the cost-optimisation programme and lower volumes of high-cost ore from stockpiles being processed through the plant compared to the same period in 2013.

### *Outlook for H2 2014*

The Group's mine plan for Pioneer for H2 2014 provides for a decrease in processed grades (by c.10% compared to H1 2014). This decrease is forecast to be reflected in slightly lower production from this mine in the second half of the year compared to the first half. Production from the mine's heap leach is scheduled to increase in line with the seasonality of this operation.

In H2 2014, ore from existing stockpiles sent to the processing plant is expected to be double that in H1 2014. The stripping ratio at Pioneer in H2 2014 is budgeted to be at the same level as in H1 2014.

Mining of pit 6.1 at NE Bakhmut is scheduled to be completed in H2 2014. As this pit has a high stripping ratio, the total material moved at Pioneer is scheduled to decrease.

## POKROVSKIY

The Group's oldest mine produced approximately 30,300oz of gold in H1 2014. Although less than the amount produced in the comparative period in 2013 (36,600oz), this was in line with the Group's mine plan.

### *Mining and Processing*

The majority of mining undertaken during the Period at Pokrovskiy was at the Pokrovka-2 deposit and the Zeyskoye zone in the northwest part of the Pokrovka-1 pit. The bottom of the Pokrovka-1 pit was completed in Q1. At Burinda, a high-grade satellite deposit, work concentrated on opening the ore body in the Central 1 zone. All of the ores mined at Burinda during the Period were stockpiled on site for delivery to the Pokrovskiy plant.

In H1 2014, the principal sources of feed for the Pokrovskiy RIP plant were the Pokrovka 1 and Pokrovka 2 pits, stockpiles and ore from Burinda which were mined in 2013. In addition, stockpile 5 was a major source of ore for processing through the mine's heap-leaching facility.

**Pokrovskiy mining operations**

| | *Units* | **Six months to 30 June 2014** | Six months to 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|---|
| Total material moved | *'000m$^3$* | **2,139** | 4,807 | 6,779.5 |
| Ore mined | *'000t* | **240** | 524 | 1,200 |
| Average grade | *g/t* | **1.9** | 2.1 | 2.0 |
| Gold content | *'000oz* | **14.7** | 35.2 | 78.3 |
| **Pokrovskiy processing operations** | | | | |
| Resin-in-pulp ("RIP") plant | | | | |
| Total milled | *'000t* | **912** | 907 | 1,789 |
| Average grade | *g/t* | **1.1** | 1.5 | 1.8 |
| Gold content | *'000oz* | **32.7** | 42.3 | 104.4 |
| Recovery rate | *%* | **86** | 77 | 76.7 |
| Gold recovered | *'000oz* | **27.9** | 32.7 | 80.1 |
| Heap leach operations | | | | |
| Ore stacked | *'000t* | **239** | 329 | 669 |
| Average grade | *g/t* | **0.6** | 0.7 | 0.7 |
| Gold content | *'000oz* | **4.3** | 7.0 | 14.2 |
| Recovery rate | *%* | **55** | 56 | 78.4 |
| Gold recovered | *'000oz* | **2.4** | 3.9 | 11.1 |
| Total gold recovered | *'000oz* | **30.3** | 36.6 | 91.2 |

### *Costs*

Total cash costs for Pokrovskiy for H1 2014 were US$795/oz, a reduction of 42% on the comparative period in 2013 (US$1,372/oz) due to the success of the Group's cost-optimisation programme, and a 12% increase in recovery rates.

### *Outlook for H2 2014*

Average head grades through the Pokrovskiy plant in H2 2014 are forecast to stay at approximately the same level as in H1 2014. Consequently, the Group is forecasting H2 2014 gold production from Pokrovskiy to be similar to H1 2014 production but with the addition of production from the mine's seasonal heap-leach facility.

During H2 2014, it is expected that the stripping ratio at Pokrovskiy will decrease by c.50% compared to H1 2014.

The principal sources of ore for feed to the plant are scheduled to be the Zeyskoye zone in the northwest part of the Pokrovka-1 pit, stockpiles and ore from Burinda, which are scheduled to be transported to Pokrovskiy in Q4 2014.

## MALOMIR

Malomir produced approximately 46,800oz of gold in H1 2014, an increase of c.22% on the amount produced in H1 2013 (38,500oz).

***Mining and Processing***
During the Period, the Quartzitovoye pit 1 and Quartzitovoye pit 2 were mined, with the former also completed during the Period. In addition, three prospective ore zones were opened at the Magnetitovoye pit and small volumes were extracted from the Ozhidaemoye and Sukhonyr deposits.

**Malomir mining operations**

| | *Units* | **Six months to 30 June 2014** | Six months to 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|---|
| Total material moved | *'000m$^3$* | **3,876** | 8,228 | 13,667 |
| Ore mined | *'000t* | **1,154** | 1,393 | 2,694 |
| Average grade | *g/t* | **1.4** | 1.4 | 1.8 |
| Gold content | *'000oz* | **52.5** | 62.0 | 158.7 |
| **Malomir processing operations** | | | | |
| Resin-in-pulp ("RIP") plant | | | | |
| Total milled | *'000t* | **1,416** | 1,309 | 2,698 |
| Average grade | *g/t* | **1.4** | 1.4 | 1.8 |
| Gold content | *'000oz* | **64.4** | 57.3 | 159.2 |
| Recovery rate | *%* | **73** | 67 | 72.6 |
| Gold recovered | *'000oz* | **46.8** | 38.5 | 115.5 |
| Total gold recovered | *'000oz* | **46.8** | 38.5 | 115.5 |

***Costs***
Total cash costs for Malomir for H1 2014 were US$1,032/oz, a reduction of 33% on the comparative period in 2013 (US$1,547/oz) due to implementation of the Group's cost-optimisation programme and a 9% increase in recovery rates.

***Outlook for H2 2014***
In H2 2014, Malomir head grades are scheduled to be c.25% higher than in H1 2014. However, due to an increase in the stripping ratio, less ore is expected to be mined at Malomir than in H1 2014. Consequently, production at Malomir in H2 2014 is forecast to be similar to that in H1.

## ALBYN

In H1 2014, Albyn produced approximately 97,300oz, a 90% increase on the 51,100oz produced in H1 2013.

***Mining and Processing***
In H1 2014 mining was concentrated on the eastern part of the Central pit. Both overburden stripping and ore extraction were carried out on the lower benches of the pit. On the uppermost two benches, the north pit wall was pushed back on the west and east sides in preparation for mining in H2 2014 and in 2015 respectively.

The ore zones in the east of the Central pit are generally narrower and more difficult to mine. Consequently, the ore mined in H1 had a lower grade than that to be mined in H2 2014.

At present, the west zone of the Central pit is being mined, exposing the wider (40-50m) ore bodies.

The volume of lower grade mined and processed in H1 2014 was partially compensated for by the additional tonnages of ore being processed in the plant. This ore came from low grade ore stockpiles (0.6-0.8g/t).

**Albyn mining operations**

| | *Units* | **Six months to 30 June 2014** | Six months to 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|---|
| Total material moved | *'000 $m^3$* | **13,972** | 9,917 | 23,865 |
| Ore mined | *'000t* | **2,152** | 1,669 | 4,009 |
| Average grade | *g/t* | **1.4** | 1.0 | 1.1 |
| Gold content | *'000oz* | **98.6** | 51.4 | 134.8 |
| **Albyn processing operations** | | | | |
| Resin-in-pulp ("RIP") plant | | | | |
| Total milled | *'000t* | **2,300** | 1,916 | 4,175 |
| Average grade | *g/t* | **1.4** | 0.9 | 1.1 |
| Gold content | *'000oz* | **102.1** | 55.6 | 145.0 |
| Recovery rate | *%* | **95** | 92 | 93.0 |
| Gold recovered | *'000oz* | **97.3** | 51.1 | 134.8 |
| Total gold recovered | *'000oz* | **97.3** | 51.1 | 134.8 |

***Costs***

Total cash costs for Albyn for H1 2014 were US$843/oz, a reduction of 35% on the comparative period in 2013 (US$1,293/oz) as a result of the Group's cost-optimisation programme and a 55% increase in processed grades.

***Outlook for H2 2014***

In H2 2014, a slight increase in the stripping ratio at Albyn is forecast. This is expected to be offset by a scheduled c.20% increase in grades to be processed through the mill, resulting in slightly higher production in H2 compared to H1.

The recovery rate of the processing plant is expected to remain high at approximately 93-95%, reflecting the metallurgical properties of the ore at Albyn.

**ALLUVIAL OPERATIONS**

During the Period, the Group's alluvial operations produced 7,700oz, a decrease of 69% on the comparative period in H1 2013 (24,600oz). This decrease in production was expected due to the sale of Berelekh in Q4 2013.

Alluvial mining, the washing of gold-bearing gravels, can only be conducted during the warmer months of the year, with operations running typically from April to November. Consequently, alluvial production is expected to be significantly higher in H2 than in H1. The Group is targeting to produce approximately 25,000oz from its alluvial operations in H2 2014.

## PROJECT DEVELOPMENT

### *Pressure oxidation (POX) Hub*

In line with the Group's plans, in H1 2014 work on the Group's pressure oxidation processing hub ("POX Hub") was conducted solely to fulfil existing contracts and undertake essential maintenance work. This resulted in an approximate 49% reduction in capital expenditure for the POX Hub to US$29.6 million compared to H1 2013 (US$58 million) and the Group is anticipating a further reduction in H2 2014.

A detailed action plan prepared in 2013 was implemented to preserve equipment at completed sections of the plant and to keep facilities on standby so that full scale development can be recommenced in the future.

In H1 2014, the following work was conducted at the POX Hub: acid treatment of autoclave and flash tank inner lining, installation of agitators, work on the framework and cladding to the neutralisation building and filtration building, the construction of the water cooling system, electrical works in the autoclave building and work on the air separation columns.

## INTERIM RESERVE AND RESOURCE STATEMENT

### Hard rock Reserves and Resources

The successful exploration programme conducted on areas at, close to or adjacent to the Group's operational mines resulted in an increase in both Mineral Resources and Ore Reserves.

A summary of the Group's gold Ore Reserves is shown below:

| **Total Ore Reserves at the Group Hard Rock Assets as at 30/06/2014 (in accordance with the JORC Code)** | | | |
|---|---|---|---|
| Category | Tonnage (*kt*) | Grade (*g/t Au*) | Gold (*Moz Au*) |
| **Total Ore Reserves** | | | |
| *Proven* | 26,167 | 1.30 | 1.09 |
| *Probable* | 237,115 | 1.08 | 8.25 |
| **Total (*P+P*)** | 263,282 | 1.10 | 9.34 |
| **Non-Refractory Ore Reserves** | | | |
| *Proven* | 6,491 | 1.50 | 0.31 |
| *Probable* | 109,197 | 1.18 | 4.16 |
| **Total (*P+P*)** | 115,687 | 1.20 | 4.47 |
| **Refractory Ore Reserves** | | | |
| *Proven* | 19,676 | 1.23 | 0.78 |
| *Probable* | 127,918 | 1.00 | 4.09 |
| **Total (*P+P*)** | 147,594 | 1.03 | 4.87 |

*Note: Figures may not add up due to rounding*

A summary of gold reserves for the Group's core currently producing assets, which includes Pioneer, Pokrovskiy, Malomir, Albyn and Burinda, is provided in the table below. These reserves are included in the table above and are not additional.

| **Ore Reserves at the Group's Core Hard Rock Assets in the Amur Region as at 30/06/2014 (in accordance with JORC Code)** | | | |
|---|---|---|---|
| Category | Tonnage (*kt*) | Grade (*g/t Au*) | Gold (*Moz Au*) |
| **Total Ore Reserves** | | | |
| *Proven* | 24,139 | 1.28 | 1.00 |
| *Probable* | 201,118 | 1.07 | 6.92 |
| **Total (*P+P*)** | 225,257 | 1.09 | 7.92 |
| **Non-Refractory Ore Reserves** | | | |
| *Proven* | 4,463 | 1.52 | 0.22 |
| *Probable* | 73,200 | 1.20 | 2.83 |
| **Total (*P+P*)** | 77,662 | 1.22 | 3.049 |
| **Refractory Ore Reserves** | | | |
| *Proven* | 19,676 | 1.23 | 0.78 |
| *Probable* | 127,918 | 1.00 | 4.09 |
| **Total (*P+P*)** | 147,594 | 1.03 | 4.87 |

*Note: Figures may not add up due to rounding*

A summary of gold resources for the Group's Mineral resources is shown below. .

| Mineral Resources at the Group's Hard Rock Assets (as at 30/06/2014) (in accordance with the JORC Code) | | | |
|---|---|---|---|
| Category | Tonnage (*kt*) | Grade (*g/t Au*) | Contained Metal (*Moz Au*) |
| **Total Mineral Resources** | | | |
| *Measured* | 60,533 | 1.14 | 2.22 |
| *Indicated* | 405,368 | 0.98 | 12.72 |
| ***Measured+Indicated*** | 465,901 | 1.00 | 14.94 |
| *Inferred* | 444,031 | 0.80 | 11.47 |
| **Non-refractory Mineral Resources** | | | |
| *Measured* | 35,475 | 1.15 | 1.31 |
| *Indicated* | 203,656 | 1.07 | 7.00 |
| ***Measured+Indicated*** | 239,131 | 1.08 | 8.32 |
| *Inferred* | 193,935 | 0.96 | 5.98 |
| **Refractory Mineral Resources** | | | |
| *Measured* | 25,058 | 1.13 | 0.91 |
| *Indicated* | 201,712 | 0.88 | 5.71 |
| ***Measured+Indicated*** | 226,770 | 0.91 | 6.62 |
| *Inferred* | 250,097 | 0.68 | 5.49 |

*Note: Mineral Resources are reported inclusive of Ore Reserves. Figures may not add up due to rounding*

A summary of gold Mineral Resources for the Group's core assets, which comprises Pioneer, Pokrovskiy, Malomir, Albyn and Burinda, is provided in the table below. These resources are included in the table above and are not additional.

| Mineral Resources at the Group's Core Assets in the Amur Region (as at 30/06/2014) (in accordance with the JORC Code) | | | |
|---|---|---|---|
| Category | Tonnage (*kt*) | Grade (*g/t Au*) | Contained Metal (*Moz Au*) |
| **Total Mineral Resources** | | | |
| *Measured* | 38,999 | 1.07 | 1.34 |
| *Indicated* | 338,138 | 0.95 | 10.31 |
| ***Measured+Indicated*** | 377,136 | 0.96 | 11.65 |
| *Inferred* | 392,421 | 0.78 | 9.78 |
| **Non-refractory Mineral Resources** | | | |
| *Measured* | 13,941 | 0.97 | 0.44 |
| *Indicated* | 136,425 | 1.05 | 4.59 |
| ***Measured+Indicated*** | 150,366 | 1.04 | 5.03 |
| *Inferred* | 142,325 | 0.94 | 4.29 |
| **Refractory Mineral Resources** | | | |
| *Measured* | 25,058 | 1.13 | 0.91 |
| *Indicated* | 201,712 | 0.88 | 5.71 |
| ***Measured+Indicated*** | 226,770 | 0.91 | 6.62 |
| *Inferred* | 250,097 | 0.68 | 5.49 |

*Note: Mineral Resources are reported inclusive of Ore Reserves. Figures may not add up due to rounding*

### Asset-by-asset breakdown of Ore Reserves

| Summary of Ore Reserves by Asset (as at 30/06/2014) (in accordance with JORC Code) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **Non Refractory** | | | **Refractory** | | | **Total** | | |
| | **Category** | **Tonnage (kt)** | **Grade (g/t Au)** | **Gold (Moz Au)** | **Tonnage (kt)** | **Grade (g/t Au)** | **Gold (Moz AU)** | **Tonnage (kt)** | **Grade (g/t Au)** | **Gold (Moz Au)** |
| **Pokrovskiy & Burinda (Amur)** | *Proven* | 1,835 | 1.82 | 0.11 | | | | 1,835 | 1.82 | 0.11 |
| | *Probable* | 8,448 | 0.99 | 0.27 | | | | 8,448 | 0.99 | 0.27 |
| | **Total (*P+P*)** | 10,283 | 1.14 | 0.376 | | | | 10,283 | 1.14 | 0.38 |
| **Pioneer (Amur)** | *Proven* | 2,196 | 1.34 | 0.09 | 11,646 | 1.18 | 0.44 | 13,843 | 1.20 | 0.54 |
| | *Probable* | 25,455 | 0.83 | 0.68 | 28,151 | 0.92 | 0.84 | 53,606 | 0.88 | 1.51 |
| | **Total (*P+P*)** | 27,651 | 0.87 | 0.77 | 39,797 | 1.00 | 1.28 | 67,449 | 0.94 | 2.05 |
| **Malomir (Amur)** | *Proven* | 314 | 0.94 | 0.01 | 8,030 | 1.31 | 0.34 | 8,344 | 1.30 | 0.35 |
| | *Probable* | 11,906 | 1.12 | 0.43 | 99,767 | 1.02 | 3.26 | 111,673 | 1.03 | 3.68 |
| | **Total (*P+P*)** | 12,220 | 1.11 | 0.437 | 107,797 | 1.04 | 3.60 | 120,017 | 1.05 | 4.03 |
| **Albyn (Amur)** | *Proven* | 117 | 1.68 | 0.01 | | | | 117 | 1.68 | 0.01 |
| | *Probable* | 27,391 | 1.66 | 1.46 | | | | 27,391 | 1.66 | 1.46 |
| | **Total (*P+P*)** | 27,508 | 1.66 | 1.465 | | | | 27,508 | 1.66 | 1.46 |
| **Visokoe (Krasno-yarsk)** | *Proven* | - | | - | | | | - | | - |
| | *Probable* | 33,802 | 1.13 | 1.22 | | | | 33,802 | 1.13 | 1.22 |
| | **Total (*P+P*)** | 33,802 | 1.13 | 1.22 | | | | 33,802 | 1.13 | 1.22 |
| **Tokur (Amur)** | *Proven* | 2,028 | 1.47 | 0.10 | | | | 2,028 | 1.47 | 0.10 |
| | *Probable* | 2,195 | 1.44 | 0.10 | | | | 2,195 | 1.44 | 0.10 |
| | **Total (*P+P*)** | 4,223 | 1.45 | 0.20 | | | | 4,223 | 1.45 | 0.20 |

*Notes:*

*(1) All Group Ore Reserves are for open pit extraction and are reported within economical pit shells;*

*(2) Reserve cut off grade for reporting varies from 0.3 to 0.7g/t Au, depending on the asset and processing method;*

*(3) Figures may not add up due to rounding.*

*(4) Ore Reserves estimates for Alexandra (Pioneer), Burinda (part of Pokrovskiy), Unglichikanskoye and Elginskoye (Albyn) as well as Magnetitovoye (Malomir) were prepared in 2014 in accordance with JORC Code (2012). Ore Reserve estimates for all other zones were originally prepared in 2010-2012, before the JORC Code (2012) came into force, thus follow the guidelines of the JORC Code (2004). Apart from depletion, resource models for these areas have not changed since their preparation as there has been no material exploration of these areas during 2013 and 2014. Therefore, Ore Reserves for all other zones are reported in accordance with JORC Code (2004). Going forward, the Group intends to follow the JORC Code (2012) guidelines for the preparation of all new estimates and maintain the JORC (2004) estimates for the areas where no additional exploration has occurred, thus leaving Mineral Resources unchanged or changed only as a result of depletion.*

## Asset-by-asset breakdown of Mineral Resources

| Summary of Mineral Resources by Asset (as at 30/06/2014) (in accordance with JORC Code) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Categor | Non-Refractory | | | Refractory | | | Total | | |
| | | Tonnag (kt) | Grade (g/t Au) | Gold (Moz Au) | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
| **Pokrov-skiy & Burinda (Amur)** | ***Measure*** | 7,267 | 1.02 | 0.24 | | - | | 7,267 | 1.02 | 0.24 |
| | ***Indicate*** | 35,457 | 0.75 | 0.86 | | - | | 35,457 | 0.75 | 0.86 |
| | ***Measure + Indicate*** | 42,724 | 0.80 | 1.10 | | - | | 42,724 | 0.80 | 1.10 |
| | ***Inferred*** | 33,102 | 0.63 | 0.67 | | - | | 33,102 | 0.63 | 0.67 |
| **Pioneer (Amur)** | ***Measure*** | 4,008 | 1.08 | 0.14 | 16,713 | 1.05 | 0.56 | 20,721 | 1.05 | 0.70 |
| | ***Indicate*** | 45,203 | 0.75 | 1.09 | 72,613 | 0.78 | 1.83 | 117,815 | 0.77 | 2.92 |
| | ***Measure + Indicate*** | 49,211 | 0.78 | 1.23 | 89,326 | 0.83 | 2.40 | 138,537 | 0.81 | 3.62 |
| | ***Inferred*** | 24,460 | 0.62 | 0.49 | 54,880 | 0.66 | 1.17 | 79,340 | 0.65 | 1.66 |
| **Malomir (Amur)** | ***Measure*** | 492 | 1.40 | 0.02 | 8,344 | 1.28 | 0.34 | 8,837 | 1.29 | 0.37 |
| | ***Indicate*** | 19,688 | 1.04 | 0.66 | 129,100 | 0.93 | 3.88 | 148,788 | 0.95 | 4.54 |
| | ***Measure + Indicate*** | 20,181 | 1.05 | 0.68 | 137,444 | 0.96 | 4.22 | 157,625 | 0.97 | 4.90 |
| | ***Inferred*** | 19,230 | 0.84 | 0.52 | 195,216 | 0.69 | 4.32 | 214,447 | 0.70 | 4.84 |
| **Albyn (Amur)** | ***Measure*** | 2,174 | 0.53 | 0.04 | | - | | 2,174 | 0.53 | 0.04 |
| | ***Indicate*** | 36,077 | 1.71 | 1.99 | | - | | 36,077 | 1.71 | 1.99 |
| | ***Measure + Indicate*** | 38,251 | 1.65 | 2.03 | | - | | 38,251 | 1.65 | 2.03 |
| | ***Inferred*** | 65,533 | 1.24 | 2.61 | | - | | 65,533 | 1.24 | 2.61 |
| **Tokur (Amur)** | ***Measure*** | 11,952 | 1.30 | 0.50 | | - | | 11,952 | 1.30 | 0.50 |
| | ***Indicate*** | 16,096 | 1.06 | 0.55 | | - | | 16,096 | 1.06 | 0.55 |
| | ***Measure + Indicate*** | 28,048 | 1.16 | 1.05 | | - | | 28,048 | 1.16 | 1.05 |
| | ***Inferred*** | 10,706 | 1.09 | 0.38 | | - | | 10,706 | 1.09 | 0.38 |
| **Visokoe (Krasno-yarsk)** | ***Measure*** | 5,623 | 1.37 | 0.25 | | - | | 5,623 | 1.37 | 0.25 |
| | ***Indicate*** | 38,512 | 1.18 | 1.47 | | - | | 38,512 | 1.18 | 1.47 |
| | ***Measure + Indicate*** | 44,135 | 1.21 | 1.71 | | - | | 44,135 | 1.21 | 1.71 |
| | ***Inferred*** | 24,200 | 1.00 | 0.78 | | - | | 24,200 | 1.00 | 0.78 |
| **Petropav-lovskoye & Monto (Yamal)** | ***Measure*** | 3,959 | 1.03 | 0.13 | | - | | 3,959 | 1.03 | 0.13 |
| | ***Indicate*** | 12,623 | 0.97 | 0.40 | | - | | 12,623 | 0.97 | 0.40 |
| | ***Measure + Indicate*** | 16,582 | 0.99 | 0.53 | | - | | 16,582 | 0.99 | 0.53 |
| | ***Inferred*** | 16,704 | 1.00 | 0.54 | | - | | 16,704 | 1.00 | 0.54 |

<u>*Notes:*</u>

*(1) Mineral Resources include Ore Reserves;*

*(2) The cut-off grade varies from 0.30 to 0.45g/t depending on the type of mineralisation and proposed processing method.*

*(3) Mineral Resource estimates for Alexandra (Pioneer), Burinda (part of Pokrovskiy), Unglichikanskoye and Elginskoye (Albyn) as well as Magnetitovoye (Malomir) were prepared in 2014 in accordance with JORC Code (2012). Mineral Resource estimates for all other zones were originally prepared in 2010-2012, before the JORC Code (2012) came into force, thus follow the guidelines of the JORC Code (2004). Apart from depletion, Resource models for these areas have not changed since their preparation as there has been no material exploration of these areas during 2013 and 2014. Therefore, Mineral Resources for all other zones are reported in accordance with JORC Code (2004). Going forward, the Group intends to follow the JORC Code (2012) guidelines for the preparation of all new estimates and maintain the JORC (2004) estimates for the areas where no additional exploration has occurred, thus leaving Mineral Resources unchanged or changed only as a result of depletion.*

The Mineral Resource and Ore Reserve statements were prepared internally by the Group following the methodology advised by independent minerals experts, Wardell Armstrong International ("WAI") in 2011/12. An extensive exploration programme, metallurgical laboratory testing and technical work conducted by the Group formed the basis of these estimates.

In line with previous Ore Reserve estimates the Group has used gold price assumptions in a range between US$1,000/oz and US$1,250/oz. These relate to the date of the last general feasibility assessment for each project as detailed in the section below. All the Ore Reserves are for open pit extraction and are reported within economic open pit shells.

### Alluvial Reserves and Resources

In addition to the Ore Reserves and Mineral Resources estimated in accordance with the JORC Code, the Group holds some alluvial gold reserves and resources in Amur Region, which it previously has reported in accordance with the Russian Classification System. In June 2014, the alluvial resources were re-evaluated following guidelines of the NAEN Code (Russian Code for the Public Reporting of Exploration Results, Mineral Resources and Mineral Reserves).

A summary of the alluvial reserves and resources in accordance with NAEN Code as of 01/01/2014 is set out in the table below.

**Mineral Reserve at the Group's Alluvial Assets as at 01/01/2014 (in accordance with the NAEN Code)**

| Category | Active | | | Pre-production | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Volume | Grade | Metal | Volume | Grade | Metal | Volume | Grade | Metal |
| | '000m$^3$ | mg/m$^3$ | koz | '000m$^3$ | mg/m$^3$ | koz | '000m$^3$ | mg/m$^3$ | koz |
| **Dredging** | | | | | | | | | |
| *Proven* | 4,315 | 144 | 20 | 30,514 | 150 | 147 | 34,829 | 149 | 167 |
| *Probable* | 21,423 | 44 | 30 | 6,537 | 74 | 16 | 27,960 | 51 | 46 |
| **Total** | **25,738** | **61** | **50** | **37,051** | **136** | **162** | **62,789** | **105** | **213** |
| **Hydraulic bulk mining** | | | | | | | | | |
| *Proven* | 1,245 | 166 | 7 | 745 | 300 | 7 | 1,990 | 216 | 14 |
| *Probable* | - | - | - | 4,275 | 98 | 14 | 4,275 | 98 | 14 |
| **Total** | **1,245** | **166** | **7** | **5,020** | **128** | **21** | **6,265** | **136** | **27** |
| **Selective mining** | | | | | | | | | |
| *Proven* | 5,109 | 621 | 102 | 2,964 | 482 | 46 | 8,073 | 570 | 148 |
| *Probable* | 705 | 268 | 6 | 368 | 406 | 5 | 1,073 | 315 | 11 |
| **Total** | **5,814** | **578** | **108** | **3,333** | **473** | **51** | **9,146** | **540** | **159** |
| **Total** | | | | | | | | | |
| *Proven* | 10,670 | 375 | 129 | 34,223 | 182 | 200 | 44,893 | 228 | 328 |
| *Probable* | 22,127 | 51 | 36 | 11,180 | 94 | 34 | 33,308 | 66 | 70 |
| **Total** | **32,797** | **157** | **165** | **45,403** | **160** | **234** | **78,201** | **159** | **399** |

| Category | Active | | | Pre-production or development | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Volume | Grade | Metal | Volume | Grade | Metal | Volume | Grade | Metal |
| | '000m$^3$ | mg/m$^3$ | koz | '000m$^3$ | mg/m$^3$ | koz | '000m$^3$ | mg/m$^3$ | koz |
| **Dredging** | | | | | | | | | |
| *Measured* | 17,958 | 78 | 45 | 32,828 | 160 | 169 | 50,786 | 131 | 215 |
| *Indicated* | 5,861 | 55 | 10 | 1,620 | 135 | 7 | 7,481 | 73 | 17 |
| ***Measured+ Indicated*** | **23,819** | **73** | **56** | **34,448** | **159** | **176** | **58,267** | **124** | **232** |
| *Inferred* | | - | - | | - | - | - | - | - |
| **Hydraulic bulk mining** | | | | | | | | | |
| *Measured* | 1,123 | 211 | 8 | 4,679 | 149 | 22 | 5,802 | 161 | 30 |
| *Indicated* | | - | - | 150 | 253 | 1 | 150 | 253 | 1 |
| ***Measured+ Indicated*** | **1,123** | **211** | **8** | **4,829** | **153** | **24** | **5,952** | **164** | **31** |
| *Inferred* | | - | | | - | - | - | - | - |
| **Selective mining** | | | | | | | | | |
| *Measured* | 4,545 | 829 | 121 | 2,358 | 680 | 52 | 6,903 | 778 | 173 |
| *Indicated* | 456 | 603 | 9 | 732 | 1,030 | 24 | 1,188 | 866 | 33 |
| ***Measured+ Indicated*** | **5,001** | **808** | **130** | **3,090** | **763** | **76** | **8,091** | **791** | **206** |
| *Inferred* | | 0 | 0 | 3,194 | 763 | 78 | 3,194 | 763 | 78 |
| **Total** | | | | | | | | | |
| *Measured* | 23,626 | 229 | 174 | 39,865 | 190 | 243 | 63,491 | 204 | 417 |
| *Indicated* | 6,317 | 95 | 19 | 2,502 | 404 | 33 | 8,819 | 183 | 52 |
| ***Measured+ Indicated*** | **29,943** | **201** | **193** | **42,367** | **203** | **276** | **72,310** | **202** | **469** |
| *Inferred* | - | - | - | 3,194 | 763 | 78 | 3,194 | 763 | 78 |

**Mineral Resource at the Group's Alluvial Assets as at 01/01/2014**
**(in accordance with the NAEN Code)**

*(1) Mineral Resources include Mineral Reserves;*

The NAEN Code shares the same template with the JORC Code and it is fully recognised by European Securities and Markets Authority ("ESMA"). NAEN allows conversion between the Russian C1, C2 into Proved and Probable Reserves and also conversion of C1, C2 and P1 into respective Measured, Indicated and Inferred resources. Similarly to the JORC Code, NAEN reports Mineral Reserve inclusive of mining dilution and mining losses.

Due to the seasonal nature of the Group's alluvial operations, the Group updates its alluvial Mineral Resource and Mineral Reserve statements annually, each January. Therefore, the current statement presented is as of 01/01/2014, the same date as the statement published previously. The underlying data for both statements are the same; the differences in the figures are due to differences between the two reporting codes.

## EXPLORATION REPORT AND COMMENTS TO THE RESERVES AND RESOURCES UPDATE

During the Period, the Group continued to focus exploration on areas which have the potential to add to the Group's non-refractory resource base and which are located near its operational processing plants at Pioneer, Malomir and Albyn. This strategy is expected to enable the Group to improve its near-term production profile at these mines.

As budgeted, during the Period, the Group invested US$18.5 million in exploration compared to the US$19.6 million invested in H1 2013.

### Pioneer Area

During the Period, exploration at Pioneer continued on the Alexandra and Shirokaya zones situated north of the active Pioneer pits, from which the Group had received very encouraging results in 2013.

Pre-stripping and in-fill drilling were carried out at Shirokaya with a view to upgrading more of the currently estimated JORC *Inferred* Mineral Resources into the *Measured* and *Indicated*categories. This resulted in an increase of c.180koz of contained gold in *Measured* and *Indicated* Resource categories and a subsequent c.100koz increase in *Probable* Ore Reserves. Drilling (drill hole C-8905) between Shirokaya and Alexandra identified further mineralisation (a 2m interval at c.32g/t), which Group geologists consider very encouraging being a proof of further high grade mineralisation. Further drilling is planned in this area to follow up the high-grade zone and include it into the next Mineral Resource statement.

Interpretation and modelling of the oxide zone (refractory/non-refractory resources) for Shirokaya is yet to be finalised. The current resource estimate makes a conservative assumption that oxide zone at Shirokaya only extends to 10m below the surface. Below this depth, all resources are reported as refractory, although Group geologists consider it likely that further cyanide tests will prove some of these resources to be non-refractory and suitable for processing at the existing RIP plant or heap-leaching facility. Therefore, it is likely that further non-refractory resources will be classified at Shirokaya once interpretation of the technological tests is completed.

A new zone of mineralisation, Brekchievaya, located c.1.5km north-east from Alexandra, was modelled and included in the JORC resource statement. A c.350m section of the strike length has been modelled providing a modest increase in non-refractory resources in the *Inferred* category. The zone remains open in both strike directions. Further drilling is being undertaken and Group geologists anticipate more substantial gold resource discoveries in this area.

Four drill profiles were completed further to the north-east of the Alexandra zone next to known gold alluvial deposits. Potentially economical gold mineralisation was intersected in profile 920/1 with three significant intersections: 5m at 2.35g/t, 2.6m at 1.19g/t and 2.1m at 8.29g/t. The strike length and morphology of the mineralisation is yet to be established through further exploration, but the results are considered encouraging.

Small additions in non-refractory and refractory resources were made at the Otvalnaya and Perspectivnaya zones. These are yet to be converted into JORC Ore Reserves.

JORC Ore Reserves estimate uses a gold price assumption of US$1,000/oz for all zones with the exception of Alexandra and Shirokaya where a US$1,250/oz assumption was used. The two different gold price assumptions relate to the long-term gold price forecast at the time of the reserve estimate.

**Albyn Area**
During the Period, exploration at Albyn focused on two satellite licence areas, Elginskoye and Unglichikan, which lie adjacent to the main Albyn licence area.

At the Elginskoye licence area, exploration resulted in an extension of mineralisation by 400m in strike direction and 700m in down dip direction of the known mineralisation. Mineralisation has been proven to a depth of 200m and remains open. As the result of continued successful exploration at Elginskoye, Mineral Resources increased by c.0.53Moz to 2.15Moz, with the average grade improving from 1.03g/t to 1.12g/t. Likewise, JORC Ore Reserves for Elginskoye increased from 44koz to c.250koz in 6.1 Mt of ore, with the average reserve grade increasing from 1.05g/t to 1.27g/t. All Elginskoye resources and reserves are classified as non-refractory, thus suitable for processing in the Albyn RIP plant and the current production plan for Albyn assumes that ore from Elginskoye will be transported to Albyn for processing. Group geologists believe there is further scope to increase Elginskoye reserves. The Group is evaluating options to realise the full potential of the asset.

A new zone of mineralisation with an expected strike length of c.1km was also discovered by two trenches between Elginskoye and Albyn. Significant trench intersections include 2m at 3.83g/t, 8m at 3.4g/t and 3m at 2.5g/t.

At Unglichikan, a deposit situated 15km from the Albyn processing plant; infill drilling, pre-stripping and bulk sampling have increased total resources from c.550koz to c.720koz. This translated into an increase in the JORC reserves of c.190koz, from c.34koz to c.220koz (in 3Mt of ore at an average grade of 2.5g/t).

The Ore Reserves are evaluated for conventional open-pit mining with an average stripping ratio of 1:9.6t/t. Metallurgical tests and trial bulk sample processing have indicated the mineralisation to be non-refractory and suitable for processing through the Albyn processing plant. Small pit has been started here and it is situated c.15km from the Albyn processing plant.

Exploration at Unglichan continues at its strike extensions and satellite zones with further results expected during H2 2014.

JORC Ore Reserves estimate uses a gold price assumption of US$1,200/oz for Albyn and US$1,250/oz for the Unglichikanskoye and Elginskoye reserves. Two different gold price assumptions relate to the long term gold price forecast at the time of the reserve estimates.

**Malomir Area**
At Malomir, exploration during the Period continued to focus on areas of potential non-refractory mineralisation.

At Magnetitovoye, an area near the Malomir processing plant, drilling extended known mineralisation to deeper levels. As a result of this work, Magnetitovoye mineral resources increased by c.40koz.

During the Period, the Kanavinskaya Zone, an area situated between the high-grade Quartzitovoye deposit and Ozhidaemoye deposit, was also drilled and some high-grade drill intersections were identified. Mineral Resources and Ore Reserves for the Kanavinskaya Zone were modelled, adding 93koz and 53koz respectively.

Exploration continued at Berezoviy, an area c.10 km north-west from the Malomir plant, which was identified as a target in 2013. The Berezoviy area contains a known alluvial gold deposit, the Uspenskiy stream, where Group geologists have been conducting prospecting work to ascertain the hard-rock source of this deposit. A drill hole intersected a 5m-long interval of mineralisation with a grade of c.22g/t. Cyanide test results indicate this mineralisation is non-refractory and potentially suitable for processing at the Malomir RIP plant.

So far, these very promising results are yet to be reflected in the Group's JORC Reserve and Resources statement.

In addition, the Group identified two potentially-economical areas of mineralisation at the Abramovskaya zone, which is also part of the Berezoviy area. Grades here are between 1.0 to 1.7 g/t on average with apparent thickness of up to 19m. Cyanide tests suggest that mineralisation predominantly refractory with cyanide recoveries of between 10% and 70%.

JORC Ore Reserves estimate uses a gold price assumption of US$1,000/oz for all zones with the exception of Quartzitovoye, Magnetitovoye and Kanavinskaya where a US$1,250/oz assumption was used. The two different gold price assumptions relate to the long-term gold price forecast at the time of the reserve estimates.

**Pokrovskiy Area**
Early stage small scale exploration continued at Verkhne-Tygdinskaya area c.10-30km south-west from Pokrovskiy. The results of this work is still inconclusive and exploration continues into H2 2014.

Pokrovskiy geologist team is evaluating additional 30-40koz low grade reserves in the areas north-west from the Pokrovskiy main pit (known as Zeyskoye) and also east from the depleted Molodezhnoye pit. These areas included into JORC *Inferred* resources in the current estimate. Due to their small size, Group is not planning to report these new reserves in accordance with JORC, nevertheless they will help to sustain Pokrovskiy production.

The Group is also evaluating test mining and grade-control results from Burinda deposit (which lies within the Taldan licence area). Group geologists anticipate that the JORC Reserve as this area will increase during H2 2014 as the result of this evaluation.

JORC Ore Reserves estimate uses a gold price assumption of US$1,000/oz for all areas of Pokrovskiy with the exception of Taldan (which includes the Burinda deposit) where US$1,250/oz was used. The two different gold price assumptions relate to the long term gold price forecast at the time of the reserve estimates.

**Exploration Outlook for H2 2014**

During H2 2014, the Group will continue to focus its exploration work on areas close to existing RIP plants. In particular, work will be undertaken at Berezoviy (Malomir), following the positive results received in H1 2014 and on the Elginskoye and Afanasevskaya licence areas near Albyn. Exploration will also continue at Alexandra and other prospective zones in the vicinity of the Pioneer processing plant.

**IRC**
IRC is a producer and developer of industrial commodities with its shares quoted on the Hong Kong Stock Exchange (Stock Code 1029).

On 21 August 2014, IRC issued its interim results for 2014. The full statement may be viewed on the website, http://www.ircgroup.com.hk/html/index.php

IRC reported that CNEEC, its main contractor for the development of K&S, has informed K&S that there will be a delay to the original planned date for the commissioning of the project. IRC and CNEEC are in discussions regarding the proposed commissioning date and CNEEC is taking accelerated steps to mitigate its exposure to potential delay penalties.

During the second quarter of 2014, a strategic review was commenced at Kuranakh to assess the economic viability of the operation going forward. IRC has reported that it is working closely with staff, local and national authorities and various departments to find all opportunities for further cost savings.

IRC announced a loss of US$88.2 million attributable to shareholders of IRC for the six months ended 30 June 2014, principally due to:

(i) Lower iron ore and ilmenite prices. These were reported in IRC's Second Quarter Trading Update and have resulted in negative cashflow at the Kuranakh mine; and

(ii) The lower iron ore and ilmenite prices in the spot market: IRC advised of a non-cash impairment against its Kuranakh mine of US$62.9 million.

Excluding the non-cash impairments, the underlying loss for the six months ended 30 June 2014 of US$21.5 million is more comparable to the loss for the same period in 2013 of US$10.7 million.

The Board of IRC considers that the overall financial position of IRC remains sound and solid. IRC reported that, as at the end of June 2014, IRC held approximately US$105 million of cash and US$98 million of undrawn credit under the ICBC K&S project finance facility.

In January 2013, IRC announced a two-stage transaction for a US$238 million subscription for new shares by General Nice, a member of a group of companies which collectively is one of the largest Chinese iron ore importers, and Minmetals Cheerglory, a wholly-owned subsidiary of China Minmetals Corporation. Stage 1 of the transaction was completed as planned. However, liquidity constraints in China, as documented by the international press, have resulted in a delay in the completion of Stage 2.

To date, General Nice has completed c. 80% of its planned investment in the following transactions:

- 851,600,000 new shares (including the deferred issue of 34,064,000* new shares), for HK$800.5 million (approximately US$103.1 million) in April 2013
- 218,340,000 new shares for HK$205.2 million (approximately US$26.5 million) in December 2013
- 165,000,000 new shares for HK$155.1 million (approximately US$20 million) in February 2014
- 165,000,000 new shares for HK$155.1 (approximately US$20 million) in April 2014

The transaction provides for investment from Minmetals Cheerglory once the subscription by General Nice is completed.

The Board understands that General Nice has informed IRC that they remain committed to injecting the remaining US$38m. Minmetals Cheerglory has also informed IRC that they remain committed to the transaction completion and working with IRC.

Further information may be obtained from the IRC website, www.ircgroup.com.hk.

**Please see IRC announcement dated 25 June 2014 in which IRC stated that none of the 34,064,000 General Nice Deferred Subscription Shares shall be issued to General Nice.*

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group is exposed to a variety of risks and uncertainties which could significantly affect its business and financial results. A detailed review of the key risks facing the Group is set out on in the Report of the Risk Committee on pages 26 to 37 of the 2013 Annual Report, which is available on the Group's website, www.petropavlovsk.net. This also includes a description of the potential impact of such risks on the Group together with measures in place to manage or mitigate against each specific risk where this is within the Group's control.

The Group's view of the principal risks that could impact it for the remainder of the current financial year remain largely unchanged from those set out in the 2013 Annual Report with the exception of the factors detailed below relating to the increased political instability between Russia and the West, concerning Ukraine, and the delay in the completion of the full investment by General Nice and Minmetals in IRC.

### *Changes in principal risks since the publication of the 2013 Annual Report*

Since the publication of the 2013 Annual Report, in April 2014, the political tensions between Russia and the West, concerning Ukraine, have increased. The European Union and the USA have imposed targeted sanctions on a number of Russian individuals and companies. This has included certain sanctions on a number of Russian banks, including VTB and Sberbank, both senior lenders to the Group, limiting their ability to access capital. Russia has responded by imposing certain sanctions, including some import, and travel restrictions. The situation is volatile, with further sanctions and actions being considered by all parties. This has led to further uncertainty and volatility in the financial markets including an increase in the perceived risk of investing in Russia. These factors may have a significant impact on the Group's operations, its financial position and its ability to access funding. Apart from the wider financial and political context, it is possible that the enhanced sanctions might, in future, impact on the Group's operations. These factors should therefore be taken into account when reviewing the funding risk and the risks associated with the Group operating within Russia detailed on pages 29 and 36 respectively, of the 2013 Annual Report.

Petropavlovsk has provided a guarantee against a US$340 million loan facility provided to Kimkano-Sutarsky Mining and Beneficiation Plant LLC ("K&S") by ICBC to fund the construction of IRC's mining operations at the K&S mine. Subject to the completion of the investment in IRC (see note 21 to the condensed consolidated interim financial statements), an indemnity (the "Indemnity") entered into by the Company and General Nice on 17 January 2013 will come into effect. Pursuant to the Indemnity, General Nice will, while the Indemnity remains in effect, indemnify the Company in respect of payments by Petropavlovsk in respect of the ICBC guarantee (the "Guarantee") or under the terms of a recourse agreement entered into between the Company, IRC and K&S on 13 December 2010 in proportion to their respective holdings in IRC. In addition, following the completion of the investment, General Nice and Minmetals have agreed to use their respective reasonable efforts to assist Petropavlovsk with the removal of the ICBC bank guarantee. Whilst General Nice and Minmetals have re-affirmed, to IRC, their commitment to this investment a revised schedule for the payment of the outstanding funds has not, as yet, been agreed between IRC, General Nice and Minmetals. Consequently there is currently no certainty that the required funds will be received by IRC and that the Indemnity will come into effect. This should therefore be taken into account when reviewing the risk regarding funds being demanded from Petropavlovsk under the Guarantee in favour of ICBC referred to above and detailed on page 31 of the 2013 Annual Report. If the investment does not complete, the Group's exposure to the iron ore price, as detailed in the risk factor on page 30 of the 2013 Annual Report, may not reduce.

In addition, if the investment by General Nice and Minmetals is not completed and IRC and/or the Company are unable to find an alternative investor, or alternative investors, for IRC or, if the Company is not otherwise able to reduce its percentage holding of IRC shares, the Company may not be able to continue to classify IRC as an 'asset held for sale'. In these circumstances, the assets of IRC may need to be reclassified at a future balance sheet date out of held for sale and, accordingly, IRC would be accounted for using the net realisable value of its underlying assets. This would increase the Group's reported net debt position considerably.

A summary of the Group's key risks is set out below:

Operational risks:

- Factors which impact output such as: i) Weather and ii) Failure of equipment or services.

Financial risks:

- Lack of funding and liquidity to:
  i) Support the Group's existing operations;
  ii) Invest in and develop its exploration projects;
  iii) Extend the life and capacity of the Group's existing mining operations; and
  iv) Refinance/repay the Group's debt as it falls due

  If the operational performance of the business declines significantly the Company will breach one or more of the financial and production covenants as set out in various financing arrangements.

  Please see page 29 of the 2013 Annual Report which provides more information on this specific risk including the potential impact. In addition, please see the Going Concern statement in this Half-Year Report and the Independent Review Report to Petropavlovsk PLC from Deloitte LLP in this Half-Year Report which contains an 'emphasis of the matter relating to the Group as a going concern'.
- The Group's results of operations may be affected by changes in gold and/or iron ore prices.
- Currency fluctuations may affect the Group.
- Funding may be demanded from Petropavlovsk under a guarantee in favour of ICBC.
- Exploration for reserves can be costly and uncertain.

Health, safety and environmental risks:

- There could be failures in the Group's health and safety processes and/or breach of Occupational, Health and Safety legislation.
- The Group's operations require the use of hazardous substances including cyanide and other reagents.

Legal and regulatory risks:

- The Group requires various licences and permits in order to operate.
- The Group's Mineral Reserves and Ore Resources are estimates based on a range of assumptions.
- The Group is subject to risks associated with operating in Russia.
- The Group is subject to risks that may arise from the ongoing political instability between Russia and the West, concerning Ukraine.

Human Resources

- The Group depends on attracting and retaining key personnel who have the requisite skills and experience to satisfy the specific requirements for the business.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

- the condensed set of consolidated financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting" as endorsed and adopted by the European Union;

- the interim report includes a fair review of the information required by DTR 4.2.7R (being an indication of important events that have occurred during the first six months of the financial year, and their impact on the interim report and a description of the principal risks and uncertainties for the remaining six months of the financial year); and

- the interim report includes a fair review of the information required by DTR 4.2.8R (being disclosure of related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the Group during that period and any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the Group in the first six months of the current financial year).

By order of the Board,

**Peter Hambro**
Chairman

**Andrey Maruta**
Chief Financial Officer

27 August 2014

**INDEPENDENT REVIEW REPORT TO PETROPAVLOVSK PLC**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 24. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

**Directors' responsibilities**
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

**Our responsibility**
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

**Scope of review**
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity"

issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Emphasis of matter**
As described in note 2 to the condensed set of financial statements, following the significant decline in the gold price in the prior period, and notwithstanding subsequent revision of the Group's plans, in the absence of refinancing the Group's forecasts show breaches of certain covenants in its banking facilities at 31 December 2014. In addition, the US$310.5 million outstanding Convertible Bonds are due for repayment in February 2015 and the Group does not currently have sufficient committed facilities or available funds to refinance this debt.

As explained further in the Chairman's Statement, the Directors have developed and are pursuing a refinancing plan which includes negotiating with the Group's senior lenders and ICBC on relaxation of covenants in its banking facilities and refinancing its Convertible Bonds. Based on negotiations conducted to date, the Directors have a reasonable expectation that the Group will receive sufficient relaxation of covenants in its banking facilities and refinance its Convertible Bonds prior to maturing in February 2015.

Whilst we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the condensed set of interim financial statements is appropriate, the conditions as set out above indicate the existence of a material uncertainty which may give rise to significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Deloitte LLP**

Chartered Accountants and Statutory Auditor
London, UK

27 August 2014

# PETROPAVLOVSK PLC
# Condensed Consolidated Income Statement
# Six months ended 30 June 2014

| | note | **Six months to 30 June 2014 (Unaudited)** | | | Six months to 30 June 2013 (Unaudited) Restated [a] | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **Before exceptional items US$ 000** | **Exceptional items US$ 000** | **Total US$ 000** | Before exceptional items US$'000 | Exceptional items US$'000 | Total US$'000 | Before exceptional items US$'000 | Exceptional items US$'000 | Total US$'000 |
| **Continuing operations** | | | | | | | | | | |
| Group revenue | | **453,038** | **-** | **453,038** | 505,072 | - | 505,072 | 1,199,784 | - | 1,199,784 |
| Operating expenses | 5 | **(408,964)** | **-** | **(408,964)** | (566,014) | (516,919) | (1,082,933) | (1,143,407) | (523,366) | (1,666,773) |
| | | **44,074** | **-** | **44,074** | (60,942) | (516,919) | (577,861) | 56,377 | (523,366) | (466,989) |
| Share of results of associates | | **(115)** | **-** | **(115)** | (225) | - | (225) | (711) | - | (711) |
| **Operating profit/(loss)** | | **43,959** | **-** | **43,959** | (61,167) | (516,919) | (578,086) | 55,666 | (523,366) | (467,700) |
| Investment income | 6 | **944** | **-** | **944** | 423 | - | 423 | 888 | - | 888 |
| Interest expense | 6 | **(36,626)** | **-** | **(36,626)** | (37,758) | - | (37,758) | (75,268) | - | (75,268) |
| Other finance gains | 6 | **-** | **-** | **-** | - | - | - | - | 19,365 | 19,365 |
| **Profit/(loss) before taxation** | | **8,277** | **-** | **8,277** | (98,502) | (516,919) | (615,421) | (18,714) | (504,001) | (522,715) |
| Taxation | 7 | **(25,073)** | **-** | **(25,073)** | (34,940) | 61,118 | 26,178 | (52,251) | 61,118 | 8,867 |
| **Loss for the period from continuing operations** | | **(16,796)** | **-** | **(16,796)** | (133,442) | (455,801) | (589,243) | (70,965) | (442,883) | (513,848) |
| **Discontinued operations** | | | | | | | | | | |
| Loss for the period from discontinued operations | 21 | **(25,890)** | **(52,628)** | **(78,518)** | (9,881) | (143,118) | (152,999) | (18,936) | (180,439) | (199,375) |
| **Loss for the period** | | **(42,686)** | **(52,628)** | **(95,314)** | (143,323) | (598,919) | (742,242) | (89,901) | (623,322) | (713,223) |
| Attributable to: | | | | | | | | | | |
| Equity shareholders of Petropavlovsk PLC | | **(30,100)** | **(23,943)** | **(54,043)** | (136,846) | (529,236) | (666,082) | (78,492) | (532,218) | (610,710) |
| *Continuing operations* | | ***(17,836)*** | ***-*** | ***(17,836)*** | *(131,391)* | *(453,985)* | *(585,376)* | *(67,978)* | *(441,066)* | *(509,044)* |
| *Discontinued operations* | | ***(12,264)*** | ***(23,943)*** | ***(36,207)*** | *(5,455)* | *(75,251)* | *(80,706)* | *(10,514)* | *(91,152)* | *(101,666)* |
| Non-controlling interests | | **(12,586)** | **(28,685)** | **(41,271)** | (6,477) | (69,683) | (76,160) | (11,409) | (91,104) | (102,513) |
| *Continuing operations* | | ***1,040*** | ***-*** | ***1,040*** | *(2,051)* | *(1,816)* | *(3,867)* | *(2,987)* | *(1,817)* | *(4,804)* |
| *Discontinued operations* | | ***(13,626)*** | ***(28,685)*** | ***(42,311)*** | *(4,426)* | *(67,867)* | *(72,293)* | *(8,422)* | *(89,287)* | *(97,709)* |
| **Loss per share** | | | | | | | | | | |
| **Basic loss per share** | 8 | | | | | | | | | |
| From continuing operations | | **(US$0.10)** | **-** | **(US$0.10)** | (US$0.67) | (US$2.31) | (US$2.98) | (US$0.34) | (US$2.25) | (US$2.59) |
| From discontinued operations | | **(US$0.06)** | **(US$0.12)** | **(US$0.18)** | (US$0.03) | (US$0.38) | (US$0.41) | (US$0.06) | (US$0.46) | (US$0.52) |
| | | **(US$0.16)** | **(US$0.12)** | **(US$0.28)** | (US$0.70) | (US$2.69) | (US$3.39) | (US$0.40) | (US$2.71) | (US$3.11) |
| **Diluted loss per share** | 8 | | | | | | | | | |
| From continuing operations | | **(US$0.10)** | **-** | **(US$0.10)** | (US$0.67) | (US$2.31) | (US$2.98) | (US$0.34) | (US$2.25) | (US$2.59) |
| From discontinued operations | | **(US$0.06)** | **(US$0.12)** | **(US$0.18)** | (US$0.03) | (US$0.38) | (US$0.41) | (US$0.06) | (US$0.46) | (US$0.52) |
| | | **(US$0.16)** | **(US$0.12)** | **(US$0.28)** | (US$0.70) | (US$2.69) | (US$3.39) | (US$0.40) | (US$2.71) | (US$3.11) |

(a) Note 2.

# PETROPAVLOVSK PLC
## Condensed Consolidated Statement of Comprehensive Loss
## Six months ended 30 June 2014

| | **Six months to 30 June 2014 (Unaudited) US$ 000** | Six months to 30 June 2013 (Unaudited) Restated US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|---|
| **Loss for the period** | **(95,314)** | (742,242) | (713,223) |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Revaluation of available-for-sale investments | **57** | (13) | (130) |
| Exchange differences on translating foreign operations | **(1,917)** | (4,594) | (4,688) |
| Cash flow hedges: | | | |
| Fair value (losses)/gains | **(33,192)** | 160,009 | 170,526 |
| Tax thereon | **6,638** | (32,002) | (34,106) |
| Transfer to revenue | **(28,779)** | (25,015) | (107,687) |
| Tax thereon | **5,756** | 5,003 | 21,537 |
| **Other comprehensive (loss)/income for the period** | **(51,437)** | 103,388 | 45,452 |
| **Total comprehensive loss for the period** | **(146,751)** | (638,854) | (667,771) |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | **(104,864)** | (562,309) | (565,333) |
| Non-controlling interests | **(41,887)** | (76,545) | (102,438) |
| | **(146,751)** | (638,854) | (667,771) |
| **Total comprehensive loss for the period attributable to equity shareholders of Petropavlovsk PLC arises from:** | | | |
| Continuing operations | **(68,300)** | (480,722) | (462,816) |
| Discontinued operations | **(36,564)** | (81,587) | (102,517) |
| | **(104,864)** | (562,309) | (565,333) |

# PETROPAVLOVSK PLC
## Condensed Consolidated Balance Sheet
## At 30 June 2014

| | note | **At 30 June 2014 (Unaudited) US$ 000** | At 30 June 2013 (Unaudited) US$'000 | At 31 December 2013 US$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Exploration and evaluation assets | 10 | **117,181** | 107,637 | 116,008 |
| Property, plant and equipment | 11 | **1,167,927** | 1,225,680 | 1,171,962 |
| Prepayments for property, plant and equipment | | **24,607** | 30,604 | 26,376 |
| Investments in associates | | **7,823** | 8,427 | 7,938 |
| Available-for-sale investments | | **181** | 243 | 124 |
| Inventories | 12 | **45,365** | 49,997 | 34,834 |
| Other non-current assets | | **256** | - | 412 |
| Deferred tax assets | | **284** | 488 | 346 |
| | | **1,363,624** | 1,423,076 | 1,358,000 |
| **Current assets** | | | | |
| Inventories | 12 | **237,205** | 323,919 | 259,915 |
| Trade and other receivables | 13 | **85,326** | 153,491 | 106,748 |
| Derivative financial instruments | 15 | **6,704** | 134,994 | 62,838 |
| Cash and cash equivalents | 14 | **63,797** | 58,551 | 170,595 |
| | | **393,032** | 670,955 | 600,096 |
| Assets of disposal group classified as held for sale | 21 | **694,371** | 652,460 | 684,987 |
| | | **1,087,403** | 1,323,415 | 1,285,083 |
| **Total assets** | | **2,451,027** | 2,746,491 | 2,643,083 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 16 | **(98,299)** | (138,057) | (98,893) |
| Current income tax payable | | **(1,229)** | (4,249) | (9,830) |
| Borrowings | 17 | **(331,994)** | (158,194) | (158,495) |
| Derivative financial instruments | 15 | **(5,838)** | - | - |
| | | **(437,360)** | (300,500) | (267,218) |
| Liabilities of disposal group associated with assets classified as held for sale | 21 | **(274,030)** | (179,840) | (228,946) |
| | | **(711,390)** | (480,340) | (496,164) |
| **Net current assets** | | **376,013** | 843,075 | 788,919 |
| **Non-current liabilities** | | | | |
| Borrowings | 17 | **(655,781)** | (1,054,435) | (960,517) |
| Deferred tax liabilities | | **(37,956)** | (64,560) | (37,896) |
| Provision for close down and restoration costs | | **(36,424)** | (34,163) | (36,169) |
| | | **(730,161)** | (1,153,158) | (1,034,582) |
| **Total liabilities** | | **(1,441,551)** | (1,633,498) | (1,530,746) |
| **Net assets** | | **1,009,476** | 1,112,993 | 1,112,337 |
| **Equity** | | | | |
| Share capital | 19 | **3,041** | 2,891 | 3,041 |
| Share premium | | **376,991** | 377,140 | 376,991 |
| Merger reserve | | **19,265** | 130,011 | 19,265 |
| Own shares | | **(8,925)** | (8,924) | (8,925) |
| Hedging reserve | | **694** | 107,995 | 49,807 |
| Convertible bond reserve | | **48,235** | 59,032 | 48,235 |
| Share based payments reserve | | **3,790** | 26,258 | 11,096 |
| Other reserves | | **(1,797)** | 119 | (89) |
| Retained earnings | | **320,012** | 166,955 | 360,999 |
| **Equity attributable to the shareholders of Petropavlovsk PLC** | | **761,306** | 861,477 | 860,420 |
| **Non-controlling interests** | | **248,170** | 251,516 | 251,917 |
| **Total equity** | | **1,009,476** | 1,112,993 | 1,112,337 |

This condensed consolidated interim financial information was approved by the Directors on 27 August 2014.

Peter Hambro
Director

Andrey Maruta
Director

# PETROPAVLOVSK PLC
## Condensed Consolidated Statement of Changes in Equity
## Six months ended 30 June 2014

| | | Total attributable to equity holders of Petropavlovsk PLC | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | note | Share capital US$'000 | Share premium US$'000 | Merger reserve US$'000 | Own shares US$'000 | Convertible bonds reserve US$'000 | Share based payments reserve US$'000 | Hedging reserve US$'000 | Other reserves[(a)] US$'000 | Retained earnings US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
| Balance at 1 January 2013 | | 2,891 | 377,140 | 130,011 | (10,196) | 59,032 | 24,015 | - | 4,341 | 853,619 | 1,440,853 | 215,260 | 1,656,113 |
| Total comprehensive income /(loss) | | - | - | - | - | - | - | 107,995 | (4,222) | (666,082) | (562,309) | (76,545) | (638,854) |
| Loss for the period | | - | - | - | - | - | - | - | - | (666,082) | (666,082) | (76,160) | (742,242) |
| Other comprehensive income/(loss) | | - | - | - | - | - | - | 107,995 | (4,222) | - | 103,773 | (385) | 103,388 |
| Dividends | | - | - | - | - | - | - | - | - | (5,855) | (5,855) | - | (5,855) |
| Share based payments | | - | - | - | - | - | 3,851 | - | - | 1,407 | 5,258 | - | 5,258 |
| Vesting of awards within Petropavlovsk PLC LTIP | | - | - | - | 1,272 | - | (1,608) | - | - | 336 | - | - | - |
| Issue of ordinary shares by subsidiary | | - | - | - | - | - | - | - | - | (16,470) | (16,470) | 112,801 | 96,331 |
| Balance at 30 June 2013 (Unaudited) | | 2,891 | 377,140 | 130,011 | (8,924) | 59,032 | 26,258 | 107,995 | 119 | 166,955 | 861,477 | 251,516 | 1,112,993 |
| Total comprehensive income/(loss) | | - | - | - | - | - | - | (58,188) | (208) | 55,372 | (3,024) | (25,893) | (28,917) |
| Loss for the period | | - | - | - | - | - | - | - | - | 55,372 | 55,372 | (26,353) | 29,019 |
| Other comprehensive income/(loss) | | - | - | - | - | - | - | (58,188) | (208) | - | (58,396) | 460 | (57,936) |
| Dividends | | - | - | - | - | - | - | - | - | 81 | 81 | - | 81 |
| Bonus share issue | | 150 | (149) | - | (1) | - | - | - | - | - | - | - | - |
| Share based payments | | - | - | - | - | - | 1,956 | - | - | (1) | 1,955 | - | 1,955 |
| Vesting of awards within Petropavlovsk PLC LTIP | | - | - | - | - | - | (17,118) | - | - | 17,118 | - | - | - |
| Issue of ordinary shares by subsidiary | | - | - | - | - | - | - | - | - | (63) | (63) | 29,818 | 29,755 |
| Buy-back of convertible bonds | | - | - | - | - | (10,797) | - | - | - | 10,797 | - | - | - |
| Other transaction with non-controlling interests | | - | - | - | - | - | - | - | - | (6) | (6) | (3,524) | (3,530) |
| Transfer to retained earnings [(b)] | | - | - | (110,746) | - | - | - | - | - | 110,746 | - | - | - |
| **Balance at 31 December 2013** | | **3,041** | **376,991** | **19,265** | **(8,925)** | **48,235** | **11,096** | **49,807** | **(89)** | **360,999** | **860,420** | **251,917** | **1,112,337** |
| Total comprehensive loss | | **-** | **-** | **-** | **-** | **-** | **-** | **(49,113)** | **(1,708)** | **(54,043)** | **(104,864)** | **(41,887)** | **(146,751)** |
| Loss for the period | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(54,043)** | **(54,043)** | **(41,271)** | **(95,314)** |
| Other comprehensive loss | | **-** | **-** | **-** | **-** | **-** | **-** | **(49,113)** | **(1,708)** | **-** | **(50,821)** | **(616)** | **(51,437)** |
| Share based payments | | **-** | **-** | **-** | **-** | **-** | **(7,306)** | **-** | **-** | **12,152** | **4,846** | **-** | **4,846** |
| Issue of ordinary shares by subsidiary | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **904** | **904** | **38,486** | **39,390** |
| Other transaction with non-controlling interests | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(346)** | **(346)** |
| **Balance at 30 June 2014 (Unaudited)** | | **3,041** | **376,991** | **19,265** | **(8,925)** | **48,235** | **3,790** | **694** | **(1,797)** | **320,012** | **761,306** | **248,170** | **1,009,476** |

(a) Including translation reserve of (US$5.9 million) (31 December 2013: (US$4.1 million), 30 June 2013: (US$4.0 million)).
(b) Arises from an adjustment to the book value of the investment in the Company financial statements to reflect changes in the value of the Group's investment in IRC Limited (note 21).

# PETROPAVLOVSK PLC
## Condensed Consolidated Cash Flow Statement
## Six months ended 30 June 2014

| | note | **Six months to 30 June 2014 (Unaudited) US $000** | Six months to 30 June 2013 (Unaudited) US'$000 | Year to 31 December 2013 US'$000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 18 | **136,903** | 140,846 | 407,369 |
| Interest paid | | **(36,727)** | (40,048) | (85,479) |
| Income tax paid | | **(19,341)** | (18,115) | (40,267) |
| **Net cash from operating activities** | | **80,835** | 82,683 | 281,623 |
| **Cash flows from investing activities** | | | | |
| Proceeds from disposal of subsidiaries, net of liabilities settled | | **(450)** | 13,428 | 49,210 |
| Purchase of property, plant and equipment [(a)] | | **(109,106)** | (175,210) | (301,299) |
| Exploration expenditure[(a)] | | **(18,871)** | (19,837) | (47,281) |
| Proceeds from disposal of property, plant and equipment | | **4,580** | 629 | 2,588 |
| Loans granted | | **(67)** | (19) | (453) |
| Repayment of amounts loaned to other parties | | **434** | 26 | 2,746 |
| Interest received | | **1,485** | 467 | 1,910 |
| **Net cash used in investing activities** | | **(121,995)** | (180,516) | (292,579) |
| **Cash flows from financing activities** | | | | |
| Proceeds from issue of ordinary shares by IRC, net of transaction costs [(b)] | | **39,390** | 100,460 | 126,887 |
| Proceeds from borrowings [(c)] | | **91,081** | 52,721 | 166,319 |
| Repayments of borrowings [(c)] | | **(184,700)** | (61,699) | (182,458) |
| Debt transaction costs paid in connection with ICBC facility | | **(278)** | (551) | (1,031) |
| Restricted bank deposit placed in connection with ICBC facility | | **(21,250)** | - | - |
| Refinancing costs | | **(651)** | - | - |
| Dividends paid to shareholders of Petropavlovsk PLC | | **-** | - | (5,774) |
| Dividends paid to non-controlling interests | | **(346)** | (2) | (5) |
| **Net cash (used in)/from financing activities** | | **(76,754)** | 90,929 | 103,938 |
| Net (decrease)/increase in cash and cash equivalents in the period | | **(117,914)** | (6,904) | 92,982 |
| Exchange losses on cash and cash equivalents | | **(2,718)** | (5,171) | (7,507) |
| Cash and cash equivalents at beginning of period | 14 | **170,595** | 159,226 | 159,226 |
| Cash and cash equivalents classified as assets held for sale at beginning of the period | 21 | **92,142** | 18,036 | 18,036 |
| Cash and cash equivalents classified as assets held for sale at end of the period | 21 | **(78,308)** | (106,636) | (92,142) |
| **Cash and cash equivalents at end of period** | 14 | **63,797** | 58,551 | 170,595 |

(a) Including US$57.8 million related to discontinued operations (six months ended 30 June 2013: US$26.2 million, year ended 31 December 2013: US$111.6 million) (note 21).

(b) Note 21.

(c) Including US$91.1 million proceeds from borrowings (six months ended 30 June 2013: US$18.2 million, year ended 31 December 2013: US$131.8 million) and US$42.7 million repayments of borrowings (six months ended 30 June 2013: US$7.3 million, year ended 31 December 2013: US$51.5 million) related to discontinued operations (note 21).

## 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.

These condensed consolidated interim financial statements are for the six months ended 30 June 2014. The interim financial statements are unaudited.

The information for the year ended 31 December 2013 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. This information was derived from the statutory accounts for the year ended 31 December 2013, a copy of which has been delivered to the Registrar of Companies. The auditor’s report on those accounts was not qualified, but drew attention by way of emphasis of matter to note 2.1 to the statutory accounts for the year ended 31 December 2013 as set out below:

“Following the significant decline in the gold price in the course of 2013 and notwithstanding subsequent revision of the Group’s plans, in the absence of refinancing the Group’s forecasts show breaches of certain covenants in its banking facilities at 31 December 2014. In addition, the US$310.5 million outstanding Convertible Bonds are due for repayment in February 2015 and the Group does not currently have sufficient committed facilities or available funds to refinance this debt.

The Directors have developed a refinancing plan which includes negotiating with the Group’s senior lenders and ICBC on relaxation of covenants in its banking facilities and refinancing its Convertible Bonds. Based on negotiations conducted to date, the Directors have a reasonable expectation that the Group will receive sufficient relaxation of covenants in its banking facilities and refinance its Convertible Bonds maturing in February 2015.

Whilst we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate, the conditions as set out above indicate the existence of a material uncertainty which may give rise to significant doubt over the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.”

The auditor’s report did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

## 2. Basis of preparation

The annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2013 were prepared in accordance with International Financial Reporting Standards (“IFRS”s) as adopted by the European Union.

The condensed set of financial statements has been prepared using accounting policies consistent with those set out in the annual financial statements for the year ended 31 December 2013, with adoption of new and revised standards and interpretations as set out below, and in accordance with IAS 34 “Interim Financial Reporting”, as adopted by the European Union.

*Going concern*

Following the significant decline in the gold price in the course of 2013 and subsequent revision of the Group’s plans in 2013, in the absence of refinancing the Group will breach covenants in its banking facilities at 31 December 2014. In addition the US$310.5 million outstanding convertible bonds are due for repayment in February 2015 and the Group does not currently have sufficient committed facilities or available funds to refinance this debt.

As explained in the Chairman’s Statement of the 2014 Half-Year Report, the Group has initiated a refinancing plan which includes negotiating with the Group’s senior lenders and the Industrial and Commercial Bank of China Limited (“ICBC”) (on the relaxation of the covenants in its banking facilities) and refinancing its convertible bonds. Based on negotiations conducted to date, the Directors have a reasonable expectation that the Group will receive sufficient relaxation or waivers of the relevant financial covenants in its banking facilities to avoid breaching those and will refinance its convertible bonds maturing in February 2015.

The Directors have concluded that the combination of these circumstances represents a material uncertainty that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the refinancing will be concluded successfully and the Group will therefore 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 2014 Half-Year Report and the condensed consolidate interim financial statements. Accordingly, they continue to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements.

*Comparatives*

Following presentation of IRC as a discontinued operation (note 21) and changes in the composition of the Group’s reportable segments (note 4), comparative information for the six months ended 30 June 2013 has been represented.

Following issue of shares to the Company shareholders during the year ended 31 December 2013 as part of the dividend considerations, earnings per share for the six months ended 30 June 2013 have been recalculated using the new number of shares (note 8).

*Adoption of new and revised standards and interpretations*

During the period the Group adopted all standards, amendments and interpretations that were effective for annual periods beginning on or after 1 January 2014 (such standards, amendments and interpretations were disclosed in note 2 to the Group's consolidated financial statements for the year ended 31 December 2013). These standards, amendments and interpretations adopted include IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", amendments to IAS 36 "Impairment of Assets", amendments to IAS 39 "Financial Instruments: Recognition and Measurement", amendments to IAS 32 "Financial Instruments: Presentation", amendments to IFRS 10, IFRS 12 and IAS 27 "Separate Financial Statements: Investment Entities", amendments to IAS 19 "Employee Benefits: Defined Benefit Plans" and IFRIC 21 "Levies".

Aside from further disclosures included in note 21 following the adoption of IFRS 12 "Disclosure of Interests in Other Entities", these standards, amendments, and interpretations have not had a significant impact on the presentation or disclosure in Group's condensed consolidated financial statements for the interim period ended 30 June 2014. No other standards that have been adopted during the period have had a significant impact on the financial statements of the Group, except for additional disclosures. No other changes have been made to the Group's accounting policies in the period ended 30 June 2014. Additional disclosures with respect to the annual period requirements will be included in the Group's consolidated financial statements for the year ending 31 December 2014.

*Ore reserves estimates*

The Group's accounting policy is to depreciate mining assets using units of production ("UOP") method based on the volume of ore reserves.

In December 2013, a significant portion of the newly discovered reserves and resources was scheduled for processing in the Group's latest life of mine production plans as these resources are expected to be classified as Joint Ore Reserves Committee ("JORC") reserves or resources before they are processed. Following this inclusion, the Group amended its methodology for determining ore reserve estimates for calculating UOP depreciation to include, in addition to JORC reserves, resources estimated in accordance with both JORC and the internally used Russian Classification System, but only to the extent these are scheduled to be mined under the Group's life of mine plans. This amendment has been applied prospectively with effect from 1 January 2014. As a consequence of the above, depreciation charges for the six months ended 30 June 2014 reduced by approximately US$21.9 million.

## 3. Foreign currency translation

The following exchange rates to the US dollar have been applied to translate balances and transactions in foreign currencies:

| | **As at 30 June 2014** | **Average six months ended 30 June 2014** | As at 30 June 2013 | Average six months ended 30 June 2013 | As at 31 December 2013 | Average year ended 31 December 2013 |
|---|---|---|---|---|---|---|
| GB Pounds Sterling (GBP: US$) | **0.58** | **0.60** | 0.66 | 0.65 | 0.60 | 0.64 |
| Russian Rouble (RUR: US$) | **33.63** | **35.03** | 32.71 | 31.03 | 32.73 | 31.85 |

### 4. Segment information

#### Business segments

The Group's reportable segments under IFRS 8 were determined to be as set out below:

- 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.
- Alluvial operations comprising various alluvial gold operations which are engaged in gold production and field exploration.
- Corporate and other segment comprising 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.

## 4. Segment information (continued)

| **Six months to 30 June 2014** | Pioneer | Pokrovskiy | Malomir | Albyn | Alluvial operations | Corporate and other | Consolidated |
|---|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Revenue** | | | | | | | |
| Gold [(a), (b)] | **173,100** | **48,176** | **67,765** | **132,480** | **8,986** | **-** | **430,507** |
| Silver | **1,668** | **527** | **195** | **208** | **38** | **-** | **2,636** |
| Other external revenue | **-** | **-** | **-** | **-** | **-** | **19,895** | **19,895** |
| Inter-segment revenue | **-** | **-** | **3,403** | **-** | **-** | **107,924** | **111,327** |
| Intra-group eliminations | **-** | **-** | **(3,403)** | **-** | **-** | **(107,924)** | **(111,327)** |
| **Total Group revenue from external customers** | **174,768** | **48,703** | **67,960** | **132,688** | **9,024** | **19,895** | **453,038** |
| **Operating expenses** | | | | | | | |
| Operating cash costs | **(100,788)** | **(28,200)** | **(50,623)** | **(80,764)** | **(7,378)** | **(23,074)** | **(290,827)** |
| Depreciation | **(19,545)** | **(11,744)** | **(10,217)** | **(26,677)** | **(2,570)** | **(442)** | **(71,195)** |
| Central administration expenses | **-** | **-** | **-** | **-** | **-** | **(22,853)** | **(22,853)** |
| Impairment of mining assets and goodwill | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Impairment of exploration and evaluation assets | **-** | **(3,463)** | **-** | **-** | **(390)** | **-** | **(3,853)** |
| Impairment of ore stockpiles | **(16,826)** | **(863)** | **2,853** | **18** | **-** | **-** | **(14,818)** |
| Total operating expenses [(c)] | **(137,159)** | **(44,270)** | **(57,987)** | **(107,423)** | **(10,338)** | **(46,369)** | **(403,546)** |
| Share of results of associates | **-** | **-** | **-** | **-** | **-** | **(115)** | **(115)** |
| **Segment result** | **37,609** | **4,433** | **9,973** | **25,265** | **(1,314)** | **(26,589)** | **49,377** |
| *Before exceptional items* | **37,609** | **4,433** | **9,973** | **25,265** | **(1,314)** | **(26,589)** | **49,377** |
| *Exceptional items* | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Foreign exchange losses | | | | | | | **(5,418)** |
| **Operating profit** | | | | | | | **43,959** |
| Investment income | | | | | | | **944** |
| Interest expense | | | | | | | **(36,626)** |
| Taxation | | | | | | | **(25,073)** |
| **Loss for the period from continuing operations** | | | | | | | **(16,796)** |
| **Segment Assets** | **511,669** | **72,824** | **475,492** | **458,158** | **40,188** | **182,125** | **1,740,456** |
| Deferred tax assets | | | | | | | **284** |
| Unallocated cash | | | | | | | **14,450** |
| Loans given | | | | | | | **1,466** |
| Assets classified as held for sale | | | | | | | **694,371** |
| **Consolidated total assets** | | | | | | | **2,451,027** |

(a) Including US$28.8 million contribution from the cash flow hedge.
(b) Alluvial operations and heap leach operations at Pioneer and Pokrovskiy are seasonal with production skewed towards the second half of the year.
(c) Operating expenses less foreign exchange losses.

### 4. Segment information (continued)

| Six months to 30 June 2013 Restated | Pioneer US$'000 | Pokrovskiy US$'000 | Malomir US$'000 | Albyn US$'000 | Alluvial operations US$'000 | Corporate and other US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | |
| Gold [(d), (e)] | 249,922 | 62,851 | 60,134 | 77,274 | 18,924 | - | 469,105 |
| Silver | - | - | - | - | 48 | - | 48 |
| Other external revenue | - | - | - | - | - | 35,919 | 35,919 |
| Inter-segment revenue | - | - | 1,220 | - | - | 153,494 | 154,714 |
| Intra-group eliminations | - | - | (1,220) | - | - | (153,494) | (154,714) |
| Total Group revenue from external customers | 249,922 | 62,851 | 60,134 | 77,274 | 18,972 | 35,919 | 505,072 |
| Operating expenses | | | | | | | |
| Operating cash costs | (142,752) | (53,417) | (60,171) | (65,232) | (21,725) | (35,680) | (378,977) |
| Depreciation | (39,319) | (15,173) | (23,657) | (35,930) | (5,842) | (1,612) | (121,533) |
| Central administration expenses | - | - | - | - | - | (27,063) | (27,063) |
| Impairment of mining assets and goodwill | (88,926) | (22,705) | (155,946) | (17,595) | - | (123,877) | (409,049) |
| Impairment of exploration and evaluation assets | - | - | - | - | (97) | (94,620) | (94,717) |
| Impairment of ore stockpiles | (30,031) | (3,338) | (9,894) | (1,051) | - | - | (44,314) |
| Loss on disposal of subsidiaries | - | - | - | - | - | (63) | (63) |
| Total operating expenses [(f)] | (301,028) | (94,633) | (249,668) | (119,808) | (27,664) | (282,915) | (1,075,716) |
| Share of results of associates | - | - | - | - | - | (225) | (225) |
| Segment result | (51,106) | (31,782) | (189,534) | (42,534) | (8,692) | (247,221) | (570,869) |
| *Before exceptional items* | 67,851 | (5,739) | (23,694) | (23,888) | (8,692) | (59,788) | (53,950) |
| *Exceptional items* | (118,957) | (26,043) | (165,840) | (18,646) | - | (187,433) | (516,919) |
| Foreign exchange losses | | | | | | | (7,217) |
| Operating loss | | | | | | | (578,086) |
| Investment income | | | | | | | 423 |
| Interest expense | | | | | | | (37,758) |
| Taxation | | | | | | | 26,178 |
| Loss for the period from continuing operations | | | | | | | (589,243) |
| Segment Assets | 649,686 | 145,429 | 482,875 | 462,038 | 117,898 | 223,086 | 2,081,012 |
| Deferred tax assets | | | | | | | 488 |
| Unallocated cash | | | | | | | 11,649 |
| Loans given | | | | | | | 882 |
| Assets classified as held for sale | | | | | | | 652,460 |
| Consolidated total assets | | | | | | | 2,746,491 |

(d) Including US$25.0 million contribution from the cash flow hedge.
(e) Alluvial operations and heap leach operations at Pioneer and Pokrovskiy are seasonal with production skewed towards the second half of the year.
(f) Operating expenses less foreign exchange losses.

### 4. Segment information (continued)

| Year ended 31 December 2013 | Pioneer | Pokrovskiy | Malomir | Albyn | Alluvial operations | Corporate and other | Consolidated |
|---|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| Revenue | | | | | | | |
| Gold [g] | 487,367 | 138,587 | 170,030 | 197,518 | 125,216 | - | 1,118,718 |
| Silver | 2,335 | 616 | 318 | 241 | 268 | - | 3,778 |
| Other external revenue | - | - | - | - | - | 77,288 | 77,288 |
| Inter-segment revenue | - | - | 4,326 | - | - | 302,126 | 306,452 |
| Intra-group eliminations | - | - | (4,326) | - | - | (302,126) | (306,452) |
| Total Group revenue from external customers | 489,702 | 139,203 | 170,348 | 197,759 | 125,484 | 77,288 | 1,199,784 |
| Operating expenses | | | | | | | |
| Operating cash costs | (283,459) | (108,067) | (116,351) | (131,554) | (112,179) | (73,259) | (824,869) |
| Depreciation | (74,543) | (22,800) | (38,054) | (76,571) | (10,928) | (1,908) | (224,804) |
| Central administration expenses | - | - | - | - | - | (45,819) | (45,819) |
| Impairment of mining assets and goodwill | (88,926) | (22,705) | (155,946) | (17,595) | - | (126,113) | (411,285) |
| Impairment of exploration and evaluation assets | - | - | - | - | (215) | (94,693) | (94,908) |
| Impairment of ore stockpiles | (36,260) | (7,712) | (9,171) | (2,430) | - | - | (55,573) |
| (Loss)/gain on disposal of subsidiaries | - | - | - | - | (4,205) | 459 | (3,746) |
| Total operating expenses [h] | (483,188) | (161,284) | (319,522) | (228,150) | (127,527) | (341,333) | (1,661,004) |
| Share of results of associates | - | - | - | - | - | (711) | (711) |
| Segment result | 6,514 | (22,081) | (149,174) | (30,391) | (2,043) | (264,756) | (461,931) |
| *Before exceptional items* | 125,471 | 3,962 | 16,666 | (11,745) | 2,168 | (75,087) | 61,435 |
| *Exceptional items* | (118,957) | (26,043) | (165,840) | (18,646) | (4,211) | (189,669) | (523,366) |
| Foreign exchange losses | | | | | | | (5,769) |
| Operating loss | | | | | | | (467,700) |
| Investment income | | | | | | | 888 |
| Interest expense | | | | | | | (75,268) |
| Other finance gains | | | | | | | 19,365 |
| Taxation | | | | | | | 8,867 |
| Loss for the period from continuing operations | | | | | | | (513,848) |
| Segment Assets | 616,504 | 122,290 | 464,344 | 471,302 | 31,184 | 204,432 | 1,910,056 |
| Deferred tax assets | | | | | | | 346 |
| Unallocated cash | | | | | | | 46,661 |
| Loans given | | | | | | | 1,033 |
| Assets of disposal group classified as held for sale | | | | | | | 684,987 |
| Consolidated total assets | | | | | | | 2,643,083 |

(g) Including US$107.7 million contribution from the cash flow hedge.
(h) Operating expenses less foreign exchange losses.

## 5. Operating expenses

| | Six months to 30 June 2014 | | | Six months to 30 June 2013 Restated | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Before exceptional items** | **Exceptional items** | **Total** | Before exceptional items | Exceptional items | Total | Before exceptional items | Exceptional items | Total |
| | **US$ 000** | **US$ 000** | **US$ 000** | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| Net operating expenses [(a)] | **362,022** | **-** | **362,022** | 500,510 | - | 500,510 | 1,049,673 | - | 1,049,673 |
| Impairment of exploration and evaluation assets | **3,853** | **-** | **3,853** | 31,161 | 63,556 | 94,717 | 31,352 | 63,556 | 94,908 |
| Impairment of mining assets and goodwill | **-** | **-** | **-** | - | 409,049 | 409,049 | - | 411,285 | 411,285 |
| Impairment of ore stockpiles [(a)] | **14,818** | **-** | **14,818** | - | 44,314 | 44,314 | 11,259 | 44,314 | 55,573 |
| Central administration expenses [(a)] | **22,853** | **-** | **22,853** | 27,063 | - | 27,063 | 45,819 | - | 45,819 |
| Foreign exchange losses | **5,418** | **-** | **5,418** | 7,217 | - | 7,217 | 5,769 | - | 5,769 |
| Loss/(gain) on disposal of subsidiaries | **-** | **-** | **-** | 63 | - | 63 | (465) | 4,211 | 3,746 |
| | **408,964** | **-** | **408,964** | 566,014 | 516,919 | 1,082,933 | 1,143,407 | 523,366 | 1,666,773 |

(a) As set out below

### Net operating expenses

| | **Six months to 30 June 2014** | Six months to 30 June 2013 Restated | Year ended 31 December 2013 |
|---|---|---|---|
| | **US$ 000** | US$'000 | US$'000 |
| Depreciation | **71,195** | 121,533 | 224,804 |
| Staff costs | **59,326** | 81,718 | 160,577 |
| Materials | **84,639** | 106,120 | 196,225 |
| Fuel | **43,540** | 57,432 | 110,094 |
| External services | **14,643** | 36,930 | 67,551 |
| Mining tax | **23,977** | 28,161 | 61,602 |
| Electricity | **19,970** | 24,665 | 49,425 |
| Smelting and transportation costs | **1,862** | 2,368 | 5,732 |
| Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production | **(2,488)** | (18,681) | 68,056 |
| Taxes other than on income | **8,144** | 4,139 | 8,619 |
| Insurance | **2,408** | 4,881 | 9,340 |
| Professional fees | **711** | 1,088 | 1,090 |
| Office costs | **293** | 644 | 1,122 |
| Operating lease rentals | **392** | 639 | 1,316 |
| Business travel expenses | **1,113** | 1,532 | 2,985 |
| Provision for impairment of trade and other receivables | **867** | 572 | (425) |
| Bank charges | **325** | 747 | 1,444 |
| Goods for resale | **10,547** | 19,698 | 42,835 |
| Other operating expenses | **19,891** | 26,432 | 46,746 |
| Other expenses/(income) | **667** | (108) | (9,465) |
| | **362,022** | 500,510 | 1,049,673 |

### Central administration expenses

| | Six months to 30 June 2014 | | | Six months to 30 June 2013 Restated | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Before exceptional items** | **Exceptional items** | **Total** | Before exceptional items | Exceptional items | Total | Before exceptional items | Exceptional items | Total |
| | **US$ 000** | **US$ 000** | **US$ 000** | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| Staff costs | **13,296** | **-** | **13,296** | 16,492 | - | 16,492 | 26,127 | - | 26,127 |
| Professional fees | **2,573** | **-** | **2,573** | 1,811 | - | 1,811 | 3,363 | - | 3,363 |
| Insurance | **532** | **-** | **532** | 670 | - | 670 | 1,200 | - | 1,200 |
| Operating lease rentals | **989** | **-** | **989** | 1,093 | - | 1,093 | 2,208 | - | 2,208 |
| Business travel expenses | **714** | **-** | **714** | 1,161 | - | 1,161 | 2,137 | - | 2,137 |
| Office costs | **452** | **-** | **452** | 506 | - | 506 | 962 | - | 962 |
| Other | **4,297** | **-** | **4,297** | 5,330 | - | 5,330 | 9,822 | - | 9,822 |
| | **22,853** | **-** | **22,853** | 27,063 | - | 27,063 | 45,819 | - | 45,819 |

### Impairment charges

*Impairment of mining assets*

The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no further impairment was required as at 30 June 2014.

*Impairment of exploration and evaluation assets*

The Group performed a review of its exploration and evaluation assets and recorded US$3.9 million impairment charges against associated exploration and evaluation costs previously capitalized within intangible assets following the decision to suspend exploration at various licence areas, primarily located in the Amur region.

*Impairment of ore stockpiles*

The Group assessed the recoverability of the carrying value of ore stockpiles during the six months ended 30 June 2014 and recorded impairment charges/ reversal of impairment as set out below:

| Reportable segment | Pre-tax impairment charge/(reversal of impairment) | Taxation | Post-tax impairment charge/(reversal of impairment) |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| Pioneer | **16,826** | **(3,365)** | **13,461** |
| Pokrovskiy | **863** | **(173)** | **690** |
| Malomir | **(2,853)** | **571** | **(2,282)** |
| Albyn | **(18)** | **4** | **(14)** |
| | **14,818** | **(2,963)** | **11,855** |

Impairment charges recorded during the six months ended 30 June 2013 are set out below:

| Reportable segment | Pre-tax impairment charge | Taxation | Post-tax impairment charge |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| Pioneer | 30,031 | (6,006) | 24,025 |
| Pokrovskiy | 3,338 | (668) | 2,670 |
| Malomir | 9,894 | (1,979) | 7,915 |
| Albyn | 1,051 | (210) | 841 |
| | 44,314 | (8,863) | 35,451 |

Impairment of ore stockpiles recognised during the six months ended 30 June 2013 was considered by the Directors to be exceptional as it resulted from the sudden and significant decline in the gold price and related to ore stockpiles which were substantially mined in prior periods.

## 6. Financial income and expenses

| | Six months to 30 June 2014 | | | Six months to 30 June 2013 Restated | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Before exceptional items | Exceptional items | Total | Before exceptional items | Exceptional items | Total | Before exceptional items | Exceptional items | Total |
| | US$ 000 | US$ 000 | US$ 000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Investment income** | | | | | | | | | |
| Interest income | 944 | - | 944 | 423 | - | 423 | 888 | - | 888 |
| | 944 | - | 944 | 423 | - | 423 | 888 | - | 888 |
| **Interest expense** | | | | | | | | | |
| Interest on bank and other loans | (30,161) | - | (30,161) | (32,499) | - | (32,499) | (64,840) | - | (64,840) |
| Interest on convertible bonds | (12,630) | - | (12,630) | (14,783) | - | (14,783) | (29,404) | - | (29,404) |
| | (42,791) | - | (42,791) | (47,282) | - | (47,282) | (94,244) | - | (94,244) |
| Interest capitalised | 6,420 | - | 6,420 | 9,708 | - | 9,708 | 19,346 | - | 19,346 |
| Unwinding of discount on environmental obligation | (255) | - | (255) | (184) | - | (184) | (370) | - | (370) |
| | (36,626) | - | (36,626) | (37,758) | - | (37,758) | (75,268) | - | (75,268) |
| **Other finance gains** | | | | | | | | | |
| Gain on buy-back of convertible bonds | - | - | - | - | - | - | - | 19,365 | 19,365 |
| | - | - | - | - | - | - | - | 19,365 | 19,365 |

## 7. Taxation

| | Six months to 30 June 2014 | | | Six months to 30 June 2013 Restated | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Before exceptional items | Exceptional items | Total | Before exceptional items | Exceptional items(a) | Total | Before exceptional items | Exceptional items(a) | Total |
| | US$ 000 | US$ 000 | US$ 000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Current tax** | | | | | | | | | |
| Russian current tax | 12,425 | - | 12,425 | 12,292 | - | 12,292 | 39,665 | - | 39,665 |
| | 12,425 | - | 12,425 | 12,292 | - | 12,292 | 39,665 | - | 39,665 |
| **Deferred tax** | | | | | | | | | |
| Origination/(reversal) of timing differences (b) | 12,648 | - | 12,648 | 22,648 | (61,118) | (38,470) | 12,586 | (61,118) | (48,532) |
| **Total tax charge/(credit)** | 25,073 | - | 25,073 | 34,940 | (61,118) | (26,178) | 52,251 | (61,118) | (8,867) |

(a) Being reversal of associated deferred tax liabilities in connection with impairment charges (note 5)
(b) Including effect of foreign exchange movements in respect of deductible temporary differences of US$9.7 million (six months ended 30 June 2013: US$24.4 million, year ended 31 December 2013: US$23.8 million).

## 8. Loss per share

| | Six months to 30 June 2014 | | | Six months to 30 June 2013 Restated | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Before exceptional items US$ 000 | Exceptional items US$ 000 | Total US$ 000 | Before exceptional items US$'000 | Exceptional items US$'000 | Total US$'000 | Before exceptional items US$'000 | Exceptional items US$'000 | Total US$'000 |
| Loss for the period attributable to equity holders of Petropavlovsk PLC | (30,100) | (23,943) | (54,043) | (136,846) | (529,236) | (666,082) | (78,492) | (532,218) | (610,710) |
| From continuing operations | (17,836) | - | (17,836) | (131,391) | (453,985) | (585,376) | (67,978) | (441,066) | (509,044) |
| From discontinued operations | (12,264) | (23,943) | (36,207) | (5,455) | (75,251) | (80,706) | (10,514) | (91,152) | (101,666) |
| Interest expense on convertible bonds, net of tax [(a)] | - | - | - | - | - | - | - | - | - |
| Loss used to determine diluted loss per share | (30,100) | (23,943) | (54,043) | (136,846) | (529,236) | (666,082) | (78,492) | (532,218) | (610,710) |
| From continuing operations | (17,836) | - | (17,836) | (131,391) | (453,985) | (585,376) | (67,978) | (441,066) | (509,044) |
| From discontinued operations | (12,264) | (23,943) | (36,207) | (5,455) | (75,251) | (80,706) | (10,514) | (91,152) | (101,666) |

| | No of shares | No of shares | No of shares |
|---|---|---|---|
| Weighted average number of Ordinary Shares | 196,423,244 | 196,400,119 | 196,415,932 |
| Adjustments for dilutive potential Ordinary Shares [(a), (b)] | - | - | - |
| Weighted average number of Ordinary Shares for diluted earnings per share | 196,423,244 | 196,400,119 | 196,415,932 |

| | Before exceptional items US$ | Exceptional items US$ | Total US$ | Before exceptional items US$ | Exceptional items US$ | Total US$ | Before exceptional items US$ | Exceptional items US$ | Total US$ |
|---|---|---|---|---|---|---|---|---|---|
| Basic loss per share | (0.16) | (0.12) | (0.28) | (0.70) | (2.69) | (3.39) | (0.40) | (2.71) | (3.11) |
| From continuing operations | (0.10) | - | (0.10) | (0.67) | (2.31) | (2.98) | (0.34) | (2.25) | (2.59) |
| From discontinued operations | (0.06) | (0.12) | (0.18) | (0.03) | (0.38) | (0.41) | (0.06) | (0.46) | (0.52) |
| Diluted loss per share | (0.16) | (0.12) | (0.28) | (0.70) | (2.69) | (3.39) | (0.40) | (2.71) | (3.11) |
| From continuing operations | (0.10) | - | (0.10) | (0.67) | (2.31) | (2.98) | (0.34) | (2.25) | (2.59) |
| From discontinued operations | (0.06) | (0.12) | (0.18) | (0.03) | (0.38) | (0.41) | (0.06) | (0.46) | (0.52) |

(a) Convertible bonds which could potentially dilute basic loss per ordinary share in the future are not included in the calculation of diluted loss per share because they were anti-dilutive for the six months ended 30 June 2014 and 2013 and the year ended 31 December 2013.

(b) The Group has a potentially dilutive option issued to International Finance Corporation ("IFC") to subscribe for 1,067,273 Ordinary Shares which was anti-dilutive and therefore was not included in the calculation of diluted loss per share for the six months ended 30 June 2014 and 2013 and the year ended 31 December 2013.

### 9. Dividends

| | **Six months to 30 June 2014** | Six months to 30 June 2013 | Year ended 31 December 2013 |
|---|---|---|---|
| | **US$ 000** | US$'000 | US$'000 |
| Final dividend for the year ended 31 December 2012 (a), (b) | **-** | 5,855 | 5,774 |
| | **-** | 5,855 | 5,774 |

(a) Comprising a cash payment of £0.02 per Ordinary Share together with an entitlement to new shares with an attributable value of £0.05 per Ordinary Share.
(b) Approved on 11 June 2013 and paid on 26 July 2013.

### 10. Exploration and evaluation assets

| | Visokoe | Flanks of Pokrovskiy | Flanks of Albyn | Other[a] | Total |
|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| At 1 January 2014 | **47,334** | **10,343** | **40,822** | **17,509** | **116,008** |
| Additions | **652** | **995** | **5,046** | **3,191** | **9,884** |
| Disposal of subsidiary | **-** | **-** | **-** | **(13)** | **(13)** |
| Impairment | **-** | **(3,463)** | **-** | **(390)** | **(3,853)** |
| Transfer to mining assets | **-** | **-** | **-** | **(5,235)** | **(5,235)** |
| Reallocation and other transfers | **-** | **-** | **-** | **390** | **390** |
| At 30 June 2014 | **47,986** | **7,875** | **45,868** | **15,452** | **117,181** |

(a) Represent amounts capitalised in respect of a number of projects in Guyana, the Amur and other regions.

### 11. Property, plant and equipment

| | Mine development costs | Mining assets | Non-mining assets | Capital construction in progress | Total |
|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Cost** | | | | | |
| At 1 January 2014 | **6,725** | **1,849,026** | **226,303** | **258,480** | **2,340,534** |
| Additions | **42** | **19,845** | **1,570** | **40,974** | **62,431** |
| Interest capitalised[a] | **-** | **-** | **-** | **6,420** | **6,420** |
| Transfers from exploration and evaluation assets (Note 10) | **-** | **5,235** | **-** | **-** | **5,235** |
| Transfers from capital construction in progress | **-** | **7,598** | **744** | **(8,342)** | **-** |
| Transfers from mine development | **(217)** | **217** | **-** | **-** | **-** |
| Disposals | **-** | **(3,032)** | **(7,413)** | **(93)** | **(10,538)** |
| Reallocation and other transfers | **(585)** | **(14,409)** | **79** | **14,411** | **(504)** |
| Foreign exchange difference | **-** | **-** | **(1,105)** | **-** | **(1,105)** |
| **At 30 June 2014** | **5,965** | **1,864,480** | **220,178** | **311,850** | **2,402,473** |
| | | | | | |
| **Accumulated depreciation and impairment** | | | | | |
| At 1 January 2014 | **5,711** | **974,065** | **181,908** | **6,888** | **1,168,572** |
| Charge for the period | **14** | **67,646** | **4,246** | **-** | **71,906** |
| Disposals | **-** | **(2,214)** | **(3,414)** | **-** | **(5,628)** |
| Reallocation and other transfers | **(35)** | **(105)** | **26** | **-** | **(114)** |
| Foreign exchange difference | **-** | **-** | **(190)** | **-** | **(190)** |
| **At 30 June 2014** | **5,690** | **1,039,392** | **182,576** | **6,888** | **1,234,546** |
| **Net book value** | | | | | |
| **At 1 January 2014**[b] | **1,014** | **874,961** | **44,395** | **251,592** | **1,171,962** |
| **At 30 June 2014**[b] | **275** | **825,088** | **37,602** | **304,962** | **1,167,927** |

(a) Note 6.
(b) Property, plant and equipment with a net book value of US$124.3 million (30 June 2013: US$162.5 million and 31 December 2013: US$133.2 million) have been pledged to secure borrowings of the Group.

## 12. Inventories

| | 30 June 2014 US$ 000 | 30 June 2013 US$'000 | 31 December 2013 US$'000 |
|---|---|---|---|
| **Current** | | | |
| Construction materials | **14,160** | 17,272 | 16,089 |
| Stores and spares | **92,641** | 113,110 | 109,876 |
| Ore in stockpiles[(a)] | **39,823** | 69,312 | 60,489 |
| Work in progress | **61,035** | 66,202 | 39,923 |
| Deferred stripping costs | **13,224** | 33,234 | 20,025 |
| Bullion in process | **3,469** | 17,547 | 1,979 |
| Other | **12,853** | 7,242 | 11,534 |
| | **237,205** | 323,919 | 259,915 |
| **Non-current** | | | |
| Ore in stockpiles [(a), (b)] | **41,190** | 44,328 | 34,834 |
| Deferred stripping costs [(c)] | **4,175** | 5,669 | - |
| | **45,365** | 49,997 | 34,834 |

(a) Note 5.
(b) Ore stockpiles that are not planned to be processed within twelve months after the reporting period.
(c) Production stripping related to the ore extraction which is to be undertaken within more than twelve months after the reporting period.

## 13. Trade and other receivables

| | 30 June 2014 US$ 000 | 30 June 2013 US$'000 | 31 December 2013 US$'000 |
|---|---|---|---|
| VAT recoverable | **50,330** | 78,146 | 57,687 |
| Advances to suppliers | **11,766** | 22,916 | 16,011 |
| Trade receivables | **3,492** | 16,407 | 20,100 |
| Consideration receivable for disposal of subsidiaries | **-** | 10,825 | - |
| Other debtors | **19,738** | 25,197 | 12,950 |
| | **85,326** | 153,491 | 106,748 |

## 14. Cash and cash equivalents

| | 30 June 2014 US$ 000 | 30 June 2013 US$'000 | 31 December 2013 US$'000 |
|---|---|---|---|
| Cash at bank and in hand | **62,311** | 56,258 | 83,676 |
| Short-term bank deposits | **1,486** | 2,293 | 86,919 |
| | **63,797** | 58,551 | 170,595 |

## 15. Derivative financial instruments

| | **30 June 2014** | | 30 June 2013 | | 31 December 2013 | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities | Assets | Liabilities |
| | **US$ 000** | **US$ 000** | US$'000 | US$'000 | US$'000 | US$'000 |
| Forward gold contracts – cash flow hedge [(a), (b)] | **6,704** | **(5,838)** | 134,994 | - | 62,838 | - |
| | **6,704** | **(5,838)** | 134,994 | - | 62,838 | - |

(a) Forward contracts to sell an aggregate of 225,446 ounces of gold at an average price of US$1,326 per ounce are outstanding as at 30 June 2014 (30 June 2013: 365,148 ounces of gold at an average price of US$1,596 per ounce, 31 December 2013: 279,138 ounces of gold at an average price of US$1,429 per ounce).
There was no ineffectiveness to be recorded from the cash flow hedge during the six months ended 30 June 2014, six months ended 30 June 2013 and the year ended 31 December 2013.

(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.

## 16. Trade and other payables

| | **30 June 2014 US$ 000** | 30 June 2013 US$'000 | 31 December 2013 US$'000 |
|---|---|---|---|
| Trade payables | **29,348** | 43,634 | 24,579 |
| Advances from customers | **2,166** | 16,620 | 9,688 |
| Advances received on resale and commission contracts | **14,078** | 2,270 | 13,561 |
| Dividends payable | **-** | 5,855 | - |
| Accruals and other payables | **52,707** | 69,678 | 51,065 |
| | **98,299** | 138,057 | 98,893 |

## 17. Borrowings

| | **30 June 2014 US$ 000** | 30 June 2013 US$'000 | 31 December 2013 US$'000 |
|---|---|---|---|
| **Borrowings at amortised cost** | | | |
| Convertible bonds | **306,674** | 359,657 | 300,254 |
| Bank loans | **681,101** | 850,347 | 818,758 |
| Other loans | **-** | 2,625 | - |
| | **987,775** | 1,212,629 | 1,119,012 |
| Amount due for settlement within 12 months | **331,994** | 158,194 | 158,495 |
| Amount due for settlement after 12 months | **655,781** | 1,054,435 | 960,517 |
| | **987,775** | 1,212,629 | 1,119,012 |

As at 30 June 2014, the fair value of the convertible bonds, considered as Level 2 of the fair value hierarchy and calculated by applying the market traded price to the convertible bonds outstanding, amounted to US$245 million (31 December 2013: US$223 million, 30 June 2013: US$286 million).

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

### 18. Notes to the cash flow statement

**Reconciliation of loss before tax to operating cash flow**

| | **Six months to 30 June 2014 US$ 000** | Six months to 30 June 2013 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|---|
| Loss before tax | **(70,413)** | (768,130) | (721,413) |
| Adjustments for: | | | |
| Share of results of joint ventures | **(2,278)** | 1,394 | 115 |
| Share of results of associate | **115** | 225 | 711 |
| Investment income | **(1,492)** | (692) | (1,864) |
| Gain on buy-back of convertible bonds | **-** | - | (19,365) |
| Interest expense | **38,006** | 39,224 | 78,181 |
| Share based payments | **4,846** | 5,258 | 7,213 |
| Depreciation | **82,700** | 131,512 | 245,915 |
| Impairment of mining assets | **-** | 409,049 | 411,285 |
| Impairment of IRC assets | **18,137** | - | 28,850 |
| Impairment of exploration and evaluation assets | **3,853** | 94,717 | 94,908 |
| Impairment of ore stockpiles | **14,818** | 44,314 | 55,573 |
| Effect of processing previously impaired stockpiles | **(20,773)** | - | (36,274) |
| Provision for impairment of trade and other receivables | **866** | 521 | (552) |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell | **34,491** | 143,118 | 151,589 |
| Loss on disposals of property, plant and equipment | **584** | 1,115 | 1,173 |
| Loss on disposal of subsidiaries | **-** | 62 | 3,746 |
| Exchange (gains)/losses in respect of investment activity | **(248)** | 737 | 1,029 |
| Exchange losses in respect of cash and cash equivalents | **2,718** | 5,171 | 7,507 |
| Other non-cash items | **4,895** | 15 | (5,369) |
| Changes in working capital: | | | |
| Decrease in trade and other receivables | **12,465** | 26,425 | 54,124 |
| Decrease/(increase) in inventories | **10,736** | (7,323) | 61,691 |
| Increase/(decrease) in trade and other payables | **2,877** | 14,134 | (11,404) |
| **Net cash generated from operations** | **136,903** | 140,846 | 407,369 |

**Non-cash transactions**

There have been no significant non-cash transactions during the six months ended 30 June 2014 and 30 June 2013 and the year ended 31 December 2013.

### 19. Share capital

| | **30 June 2014** | | 30 June 2013 | | 31 December 2013 | |
|---|---|---|---|---|---|---|
| | **No of shares** | **US$ 000** | No of shares | US$'000 | No of shares | US$'000 |
| **Allotted, called up and fully paid** | | | | | | |
| At the beginning of the period | **197,638,425** | **3,041** | 187,860,093 | 2,891 | 187,860,093 | 2,891 |
| Issued during the period | **-** | **-** | - | - | 9,778,332[(a)] | 150 |
| At the end of the period | **197,638,425** | **3,041** | 187,860,093 | 2,891 | 197,638,425 | 3,041 |

(a) Issued to shareholders in respect of their entitlement to receive 1 new Ordinary Share for every 19.21 Ordinary Shares held on the Register at the close of business on 28 June 2013 pursuant to a resolution of the Company's shareholders at the annual general meeting held on 11 June 2013.

The Company has one class of Ordinary Shares which carry no right to fixed income.

The Company issued an option to the IFC on 22 April 2009 on acquisition of Aricom PLC to subscribe for 1,067,273 ordinary shares at an exercise price of £11.84 per share, subject to adjustments. The option expires on 25 May 2015.

## 20. Related parties

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

OJSC Asian-Pacific Bank ("Asian-Pacific Bank") and LLC Insurance Company Helios Reserve ("Helios") are considered to be related parties as members of key management have an interest in and collectively exercise significant influence over these entities.

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.

OJSC Krasnoyarskaya GGK ("Krasnoyarskaya GGK") was considered to be a related party due to this entity's minority interest and significant influence in the Group's subsidiary Verhnetisskaya GRK until 8 July 2013. Verhnetisskaya GRK became an associate to the Group on 8 July 2013 and hence qualifies as a related party since then.

CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ("Omchak") are associates to the Group and hence are related parties.

Transactions with related parties the Group entered into during the six months ended 30 June 2014 and 30 June 2013 and the year ended 31 December 2013 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 | | |
|---|---|---|---|---|---|---|
| | **Six months to 30 June 2014 US$ 000** | Six months to 30 June 2013 US$'000 | Year ended 31 December 2013 US$'000 | **Six months to 30 June 2014 US$ 000** | Six months to 30 June 2013 US$'000 | Year ended 31 December 2013 US$'000 |
| **Asian-Pacific Bank** | | | | | | |
| Other | **236** | 277 | 462 | **94** | 340 | 552 |
| | **236** | 277 | 462 | **94** | 340 | 552 |
| **Trading transactions with other related parties** | | | | | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercise a significant influence or control | **52** | 12 | 101 | **4,015** | 7,177 | 10,045 |
| Associates | **41** | 39 | 344 | **-** | - | - |
| | **93** | 51 | 445 | **4,015** | 7,177 | 10,045 |

During the six months ended 30 June 2014, the Group made US$0.3 million charitable donations to the Petropavlovsk Foundation (30 June 2013: US$0.2 million and 31 December 2013: US$1.1 million).

The outstanding balances with related parties at 30 June 2014, 30 June 2013 and 31 December 2013 are set out below.

| | Amounts owed by related parties | | | Amounts owed to related parties | | |
|---|---|---|---|---|---|---|
| | **30 June 2014 US$ 000** | 30 June 2013 US$'000 | 31 December 2013 US$'000 | **30 June 2014 US$ 000** | 30 June 2013 US$'000 | 31 December 2013 US$'000 |
| Helios and other entities in which key management have interest and exercise a significant influence or control | **2,477** | 3,297 | 1,955 | **111** | 743 | 2 |
| Associates | **115** | 447 | 132 | **-** | 449 | 144 |
| Asian-Pacific Bank | **9** | 10 | 9 | - | - | - |
| | **2,601** | 3,754 | 2,096 | **111** | 1,192 | 146 |

## 20. Related parties (continued)

### Banking arrangements

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

The bank balances at 30 June 2014, 30 June 2013 and 31 December 2013 are set out below:

| | **30 June 2014 US$ 000** | 30 June 2013 US$'000 | 31 December 2013 US$'000 |
|---|---|---|---|
| Asian-Pacific Bank [(a)] | **29,606** | 23,966 | 46,505 |

(a) Including US$24.0 million presented within assets classified as held for sale as at 30 June 2014 (30 June 2013: US$17.1 milion, 31 December 2013: US$24.4 million) (note 21).

### Financing transactions

The Group had an interest-free unsecured loan issued to Verkhnetisskaya GRK. Loan principal outstanding as at 30 June 2014 amounted to an equivalent of US$6.0 million (31 December 2013: US$6.2 million).

During the year ended 31 December 2013, the Group's subsidiary Verkhnetisskaya GRK received US$0.04 million under interest-free unsecured loan arrangements with Krasnoyarskaya GGK. Loan principal outstanding as at 30 June 2013 amounted to an equivalent of US$2.6 million.

As at 30 June 2014, 30 June 2013 and 31 December 2013, the Group had an interest-free unsecured loan issued to LLC Kaurchak. Loan principal outstanding as at 30 June 2014 amounted to US$1.0 million (30 June 2013 and 31 December 2013: US$1.0 million).

Financing transactions between IRC and Asian-Pacific Bank are disclosed in note 21.

### Key management compensation

Key management personnel, comprising a group of 20 (30 June 2013: 21 and 31 December 2013: 21) individuals, including Executive and Non-Executive Directors of the Company and members of senior management, are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

| | **Six months ended 30 June 2014 US$ 000** | Six months ended 30 June 2013 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|---|
| Wages and salaries | **4,526** | 5,801 | 10,279 |
| Pension costs | **295** | 263 | 534 |
| Share based compensation | **2,346** | 3,090 | 5,472 |
| | **7,167** | 9,154 | 16,285 |

### 21. Assets held for sale and discontinued operation IRC

On 17 January 2013, IRC Limited ("IRC") entered into conditional subscription agreements with each of General Nice Development Limited ("General Nice") and Minmetals Cheerglory Limited ("Minmetals") for an investment by General Nice and Minmetals in new shares of IRC for up to approximately HK$1,845 million (approximately US$238 million) in aggregate. The above transactions were approved at the Company's Extraordinary General Meeting on 7 March 2013 and the Extraordinary General Meeting of IRC Limited on 11 March 2013.

The details of transactions executed during the year ended 31 December 2013 as part of the aforementioned subscription agreements are set out in note 27 of the Group's consolidated financial statements for the year ended 31 December 2013. The following transactions occurred subsequent to 31 December 2013 until the date of approval of these condensed consolidated financial statements:

- On 26 February 2014, IRC received subscription monies of HK$155.1 million (approximately US$20.0 million) from General Nice and accordingly allotted and issued 165,000,000 new shares to General Nice as a further partial subscription of General Nice Further Subscription Shares; and

- On 30 April 2014, IRC received subscription monies of HK$155.1 million (approximately US$20 million) from General Nice and accordingly allotted and issued 165,000,000 new shares to General Nice as a further partial subscription of General Nice Further Subscription Shares.

IRC are currently working together with General Nice and Minmetals to agree on a timely funding plan for the completion of the remaining HK$529 million (approximately US$68 million) share subscriptions.

As at 30 June 2014, the Group's interest in the share capital of IRC Limited was 45.39% (31 December 2013: 48.7%, 30 June 2013: 51.16%). As at 30 June 2014 and 31 December 2013, the Group is still considered to retain sufficiently dominant voting interest to exercise de facto control over IRC on the basis of the Group's size of the shareholding and the relative size and dispersion of the shareholding interest owned by other shareholders.

Assuming General Nice and Minmetals exercise their subscription rights in full, the Group's interest in the share capital of IRC will be diluted to 40.68% and, with another significant shareholder block in place, the Group will lose control over IRC and IRC will cease being a subsidiary of the Group.

The dilution is expected to be completed within 12 months after the reporting date and, accordingly, IRC continues to be classified as "held for sale" and presented separately in the balance sheet as well as presented as a discontinued operation in the income statement.

The main categories of assets and liabilities classified as held for sale are set out below.

| | **30 June 2014** | | 31 December 2013 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value less costs to sell [(a), (b)]** | Carrying amount | Fair value less costs to sell [(a),(b)] |
| | **US$ 000** | **US$ 000** | US$'000 | US$'000 |
| Intangible assets | **54,147** | **20,833** | 53,302 | 22,635 |
| Property, plant and equipment [(c)] | **622,640** | **213,208** | 609,061 | 231,803 |
| Prepayments for property, plant and equipment | **246,678** | **246,678** | 228,671 | 228,671 |
| Interests in joint ventures | **7,069** | **7,069** | 4,893 | 4,893 |
| Other non-current assets | **37,121** | **37,121** | 20,627 | 20,627 |
| Inventories | **58,693** | **58,693** | 57,682 | 57,682 |
| Trade and other receivables | **32,461** | **32,461** | 26,534 | 26,534 |
| Cash and cash equivalents | **78,308** | **78,308** | 92,142 | 92,142 |
| **Total assets classified as held for sale** | **1,137,117** | **694,371** | 1,092,912 | 684,987 |
| | | | | |
| Trade and other payables | **18,495** | **18,495** | 18,593 | 18,593 |
| Current income tax payable | **274** | **274** | 274 | 274 |
| Borrowings [(d)] | **245,933** | **245,933** | 200,226 | 200,226 |
| Deferred tax liabilities | **59,405** | **593** | 59,719 | 1,237 |
| Provision for close down and restoration costs | **8,735** | **8,735** | 8,616 | 8,616 |
| **Total liabilities associated with assets classified as held for sale** | **332,842** | **274,030** | 287,428 | 228,946 |
| | | | | |
| **Net assets of IRC** | **804,275** | **420,341** | 805,484 | 456,041 |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell as at 31 December 2013 | **(349,443)** | | (349,443) | |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell as at 30 June 2014 | **(34,491)** | | - | |
| **Fair value less costs to sell [(a), (b)]** | **420,341** | | 456,041 | |
| Attributable to: | | | | |
| Equity shareholders of Petropavlovsk PLC | **191,000** | | 222,379 | |
| Non-controlling interests | **229,341** | | 233,662 | |

(a) Based on market share price of HK$0.67 per IRC share as at 30 June 2014 (31 December 2013: HK$0.78) less transaction costs. A decrease/increase of 10% in IRC's share price would result in US$42.0 million additional write-down/ reversal of write-down adjustment.

(b) Non-recurring fair value measurement treated as Level 1 of the fair value hierarchy.

(c) At 30 June 2014, IRC had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US$150.5 million (31 December 2013: US$179 million). These amounts are not included in the capital commitments stated in note 23, as such amounts therein represent commitments from continuing operations.

(d) Including borrowings from Asian-Pacific Bank of US$21.3 million (31 December 2013: US$20 million).
As at 30 June 2014, the amounts undrawn under the facilities with Asian-Pacific Bank were US$3.7 million (31 December 2013: US$5 million).

Analysis of the result of discontinued operations and the results recognised on the re-measurement of IRC are set out below.

| | **Six months to 30 June 2014** | | | Six months to 30 June 2013 | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Before exceptional items US$ 000** | **Exceptional items US$ 000** | **Total US$ 000** | Before exceptional items US$'000 | Exceptional items US$'000 | Total US$'000 | Before exceptional items US$'000 | Exceptional items US$'000 | Total US$'000 |
| Revenue | **67,475** | **-** | **67,475** | 92,233 | - | 92,233 | 160,854 | - | 160,854 |
| Net expenses | **(93,537)** | **(18,137)** | **(111,674)** | (101,824) | - | (101,824) | (179,113) | (28,850) | (207,963) |
| **Loss before tax from discontinued operations** | **(26,062)** | **(18,137)** | **(44,199)** | (9,591) | - | (9,591) | (18,259) | (28,850) | (47,109) |
| Taxation | **172** | **-** | **172** | (290) | - | (290) | (677) | - | (677) |
| **Loss after tax from discontinued operations** | **(25,890)** | **(18,137)** | **(44,027)** | (9,881) | - | (9,881) | (18,936) | (28,850) | (47,786) |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell | **-** | **(34,491)** | **(34,491)** | - | (143,118) | (143,118) | - | (151,589) | (151,589) |
| **Loss for the period from discontinued operations** | **(25,890)** | **(52,628)** | **(78,518)** | (9,881) | (143,118) | (152,999) | (18,936) | (180,439) | (199,375) |
| Attributable to: | | | | | | | | | |
| Equity shareholders of Petropavlovsk PLC | **(12,264)** | **(23,943)** | **(36,207)** | (5,455) | (75,251) | (80,706) | (10,514) | (91,152) | (101,666) |
| Non-controlling interests | **(13,626)** | **(28,685)** | **(42,311)** | (4,426) | (67,867) | (72,293) | (8,422) | (89,287) | (97,709) |

Analysis of cash flows attributable to discontinued operations is set out below.

| | **Six months to 30 June 2014 US$ 000** | Six months to 30 June 2013 US$'000 | Year ended 31 December 2013 US$'000 |
|---|---|---|---|
| Operating cash flows | **(23,154)** | 14,642 | (10,481) |
| Investing cash flows | **(55,863)** | (25,719) | (110,373) |
| Financing cash flows | **65,897** | 100,844 | 196,188 |
| **Total cash flows** | **(13,120)** | 89,767 | 75,334 |

## 22. Analysis of net debt

| | At 1 January 2014 US$'000 | Disposal of subsidiaries US$'000 | Net cash movement US$'000 | Exchange movement US$'000 | Non-cash changes US$'000 | At 30 June 2014 US$'000 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | **170,595** | **(450)** | **(104,345)** | **(2,003)** | **-** | **63,797** |
| Debt due within one year | **(158,495)** | **-** | **167,818** | **-** | **(341,317)** | **(331,994)** |
| Debt due after one year | **(960,517)** | **-** | **6,210** | **-** | **298,526** | **(655,781)** |
| Net debt | **(948,417)** | **(450)** | **69,683** | **(2,003)** | **(42,791)** [(a)] | **(923,978)** |

(a) Being amortisation of borrowing costs.

| | At 1 January 2013 US$'000 | Disposal of subsidiaries US$'000 | Net cash movement US$'000 | Exchange movement US$'000 | Non-cash changes US$'000 | At 31 December 2013 US$'000 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 159,226 | 49,210 | (31,562) | (6,279) | - | 170,595 |
| Debt due within one year | (83,789) | 117 | 63,864 | - | (138,687) | (158,495) |
| Debt due after one year | (1,138,732) | 2,533 | 111,672 | 202 | 63,808 | (960,517) |
| Net debt | (1,063,295) | 51,860 | 143,974 | (6,077) | (74,879) [(a)] | (948,417) |

(b) Being amortisation of borrowings and gain on buy-back of convertible bonds.

## 23. Capital commitments

At 30 June 2014, the Group had entered into contractual commitments in relation to its continuing operations for the acquisition of property, plant and equipment and mine development costs amounting to US$3.8 million (30 June 2013: US$28.5 million and 31 December 2013: US$30.4 million), including US$1.6 million in relation to the POX Hub (30 June 2013: US$24.5 million and 31 December 2013: US$25.6 million).

## 24. Reconciliation of loss for the period to underlying EBITDA (supplemental non-IFRS information)

| | **Six months to 30 June 2014** | | | Six months to 30 June 2013 Restated | | | Year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Before exceptional items US$ 000** | **Exceptional items US$ 000** | **Total US$ 000** | Before exceptional items US$'000 | Exceptional items US$'000 | Total US$'000 | Before exceptional items US$'000 | Exceptional items US$'000 | Total US$'000 |
| **Loss for the period from continuing operations** | **(16,796)** | **-** | **(16,796)** | (133,442) | (455,801) | (589,243) | (70,965) | (442,883) | (513,848) |
| **Add/(less):** | | | | | | | | | |
| Interest expense | **36,626** | **-** | **36,626** | 37,758 | - | 37,758 | 75,268 | - | 75,268 |
| Investment income | **(944)** | **-** | **(944)** | (423) | - | (423) | (888) | - | (888) |
| Other finance losses | **-** | **-** | **-** | - | - | - | - | (19,365) | (19,365) |
| Foreign exchange losses | **5,418** | **-** | **5,418** | 7,217 | - | 7,217 | 5,769 | - | 5,769 |
| Taxation | **25,073** | **-** | **25,073** | 34,940 | (61,118) | (26,178) | 52,251 | (61,118) | (8,867) |
| Depreciation | **71,195** | **-** | **71,195** | 121,533 | - | 121,533 | 224,804 | - | 224,804 |
| Impairment of mining assets and goodwill | **-** | **-** | **-** | - | 409,049 | 409,049 | - | 411,285 | 411,285 |
| Impairment of exploration and evaluation assets | **3,853** | **-** | **3,853** | 31,161 | 63,556 | 94,717 | 31,352 | 63,556 | 94,908 |
| Impairment of ore stockpiles | **14,818** | **-** | **14,818** | - | 44,314 | 44,314 | 11,259 | 44,314 | 55,573 |
| **Underlying EBITDA** | **139,243** | **-** | **139,243** | 98,744 | - | 98,744 | 328,850 | (4,211) | 324,639 |

***Note: Figures throughout this release may not add up due to rounding.***

***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 Group's results of operations, financial position, liquidity, prospects, growth, strategies and expectations of the industry.*

*By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. 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 developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations (including the US dollar and Rouble), the Group's ability to recover its reserves or develop new reserves, changes in its business strategy, political and economic uncertainty. Save as required by the Listing and Disclosure and Transparency Rules, the Company is under no obligation to update the information contained in this release.*

*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.*