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**FORMER NAME

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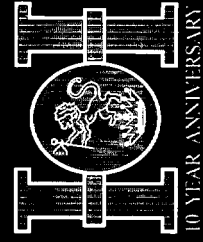
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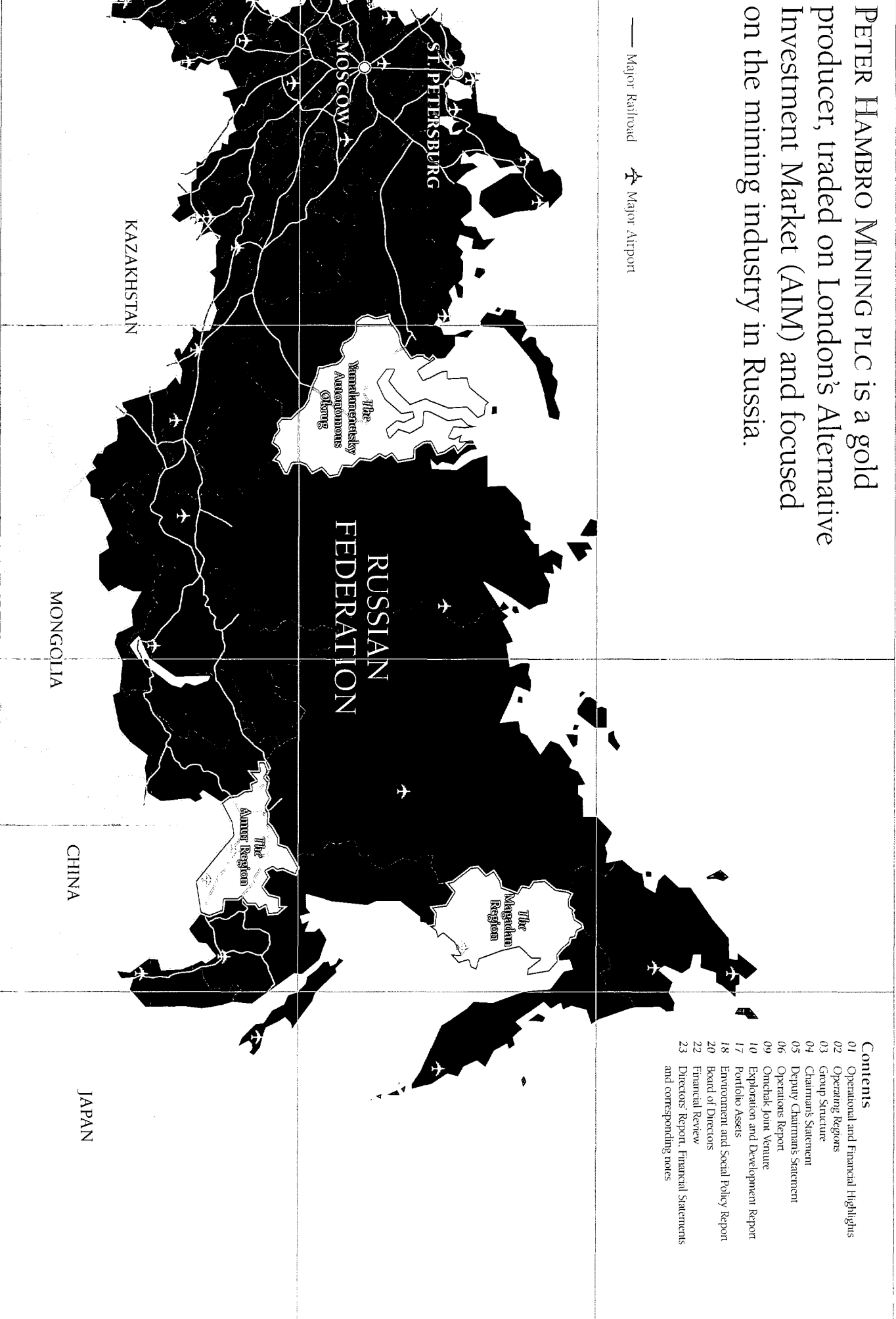
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PULP & PAPER
HAMBRO
MINING PLC
Annual Report and Accounts
for the year ended 31 December 2014

PETER HAMBRO MINING PLC is a gold producer, traded on London's Alternative Investment Market (AIM) and focused on the mining industry in Russia.

— Major Railroad ✈ Major Airport



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PETER HAMBRO MINING PLC

11, GROSVENOR PLACE, BELGRAVIA, LONDON, SW1X 7HH

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Press Release Issued on 18th May 2005:

18th May 2005

PETER HAMBRO MINING PLC
2004 ANNUAL REPORT & ACCOUNTS

PETER HAMBRO MINING PLC today released its Annual Report for the financial year ending 31st December 2004. The Company's 2004 Annual Report, in addition to the Preliminary Announcement of the Annual Results reported first on 18th April, details:

- the continued increase in profitability, production and balance sheet strength whilst costs have been held broadly constant;
- the breakdown of the Group's growth in reserves and resources along with a review of work undertaken during 2004 and planned for the future;
- a full environmental and social policy report as part of the investment in the Group made by the International Finance Corporation;
- an update on the exploration work at Pokrovskiy & Pioneer including detail on the correlation of Russian reserves and resources to western standards; and
- the completion of the Group's three new laboratories together amounting to what we believe is the largest assay capacity in Russia.

Peter Hambro, Chairman, added:

"As you will see from our annual report and accounts, the Group has had another successful year. I believe they also show that we remain well positioned for a future of continued growth and, most importantly, profitability. This will be based on the success of our operations, the strength of our balance sheet and the continuing opportunities available to expand our resource base through exploration, development and acquisition. Our plans to realise 1 million ounces of gold production per year in 2009 remain on track supported by developments at Pioneer, Pokrovskiy and Malomir.

"In the notice convening the Annual General Meeting shareholders will see the proposal to reduce the share premium account of the company in order to allow the Company to pay dividends sooner. The Board consider that, given the



A member of the PETER HAMBRO MINING GROUP of companies
Registered Office: 11, Grosvenor Place, Belgravia, London SW1X 7HH
Registered in England Number 4343841

PETER HAMBRO MINING PLC

continuing success of our Russian operations, the payment of a dividend would be timely and compatible with our continued investment in the planned growth of our business"

Copies of the Annual Report are being distributed to shareholders today. The Annual General Meeting is planned to be held at 12 noon on Tuesday 21st June 2005 at 11, Grosvenor Place, London SW1X 7HH, notice of which will be distributed in due course.

The Annual Report is also available online at www.peterhambro.com. Additional copies may be requested directly from the Company and are available at the Company's registered office, 11, Grosvenor Place, London SW1X 7HH.

Enquiries:

Jay Hambro / Alya Samokhvalova +44 (0) 20 7201 8900
Peter Hambro Mining PLC

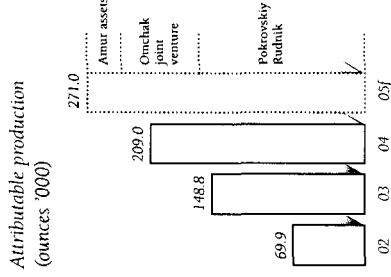
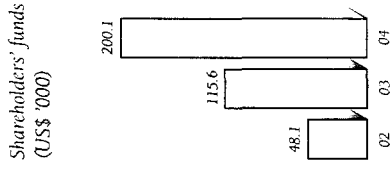
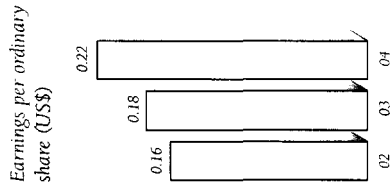
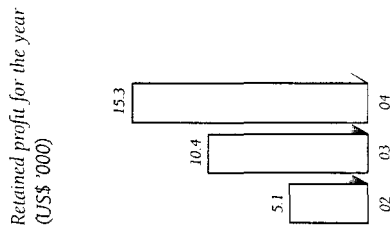
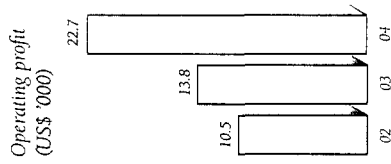
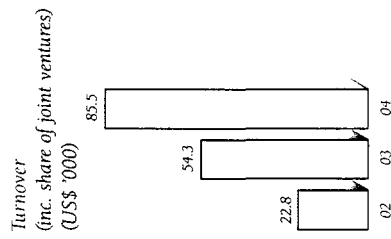
Tom Randell / Maria Suleymanova +44 (0) 20 7653 6620
Merlin

Press Release Issued on 19th May 2005:

Holdings in the Company

19 May 2005

The Company was notified on 19 May 2005 by Landsdowne Partners Limited that, as a result of a purchase of shares, it now holds 3,322,342 Ordinary Shares in the Company on behalf of client funds that it manages. This holding represents 4.4 per cent. of the total issued share capital of the Company.



OPERATIONAL AND FINANCIAL HIGHLIGHTS

- > Retained profit up 48% to US\$15.3 million
- > Pokrovskiy 2004 production forecast exceeded and at GIS costs of under US\$100/ounce for the second half of 2004
- > Attributable gold production up 40% and ahead of targets
- > Further progress towards 2009 goal of one million ounces per annum production
- > Independent review of substantial portion of resources provides credibility to Company estimates
- > JORC reserve statement at Pokrovskiy 34% higher than previous Russian standards estimations
- > Strong balance sheet with substantial net cash position leaves Group well placed for project finance of major capital expenditure programme

Group and share of joint ventures

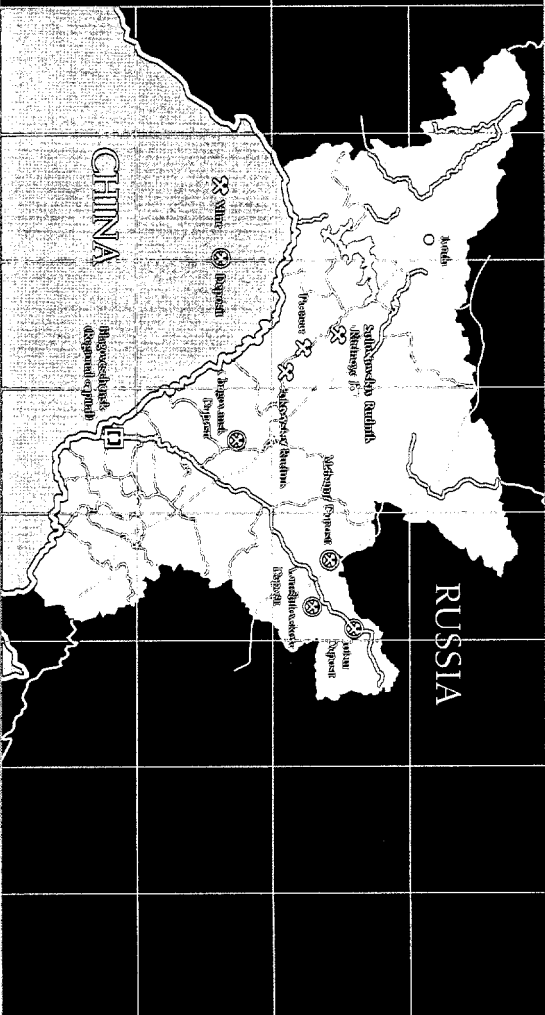
US\$ '000	2004	2003
Turnover	85,502	54,260
Operating profit	22,703	13,795
Profit before tax	24,304	16,257
Profit after tax	16,051	10,987
Retained profit	15,318	10,383



Left:
Production blasting at
Pokrovskiy Rudnik

PETER HAMBRO MINING

The Group owns the Pokrovskiy operating gold mine, the Pioneer, Amur north-east and YamalZoloto assets which are at advanced exploration stage; and a substantial portfolio of other exploration assets, most of which are located in the Amur Region, Russian Far East.



The Amur region

The Amur region is home to the Group's primary operations and a large proportion of development assets. The region has a good transport system, based on two of Russia's key railroads, and good access to low cost electricity, from two large hydro-electric plants – providing a sound base for gold production.

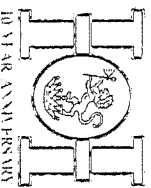
The Amur region has a vast resource potential and gold production is one of the region's leading economic sectors; the Amur region ranks third amongst the gold producing regions of the Russian Federation. The region's economy is diversified and based on industry, agriculture and construction. The region's major industries are: electric power; coal production; mining; food; timber and wood processing; machine-building and metalworking; fuel; and the construction materials industry.

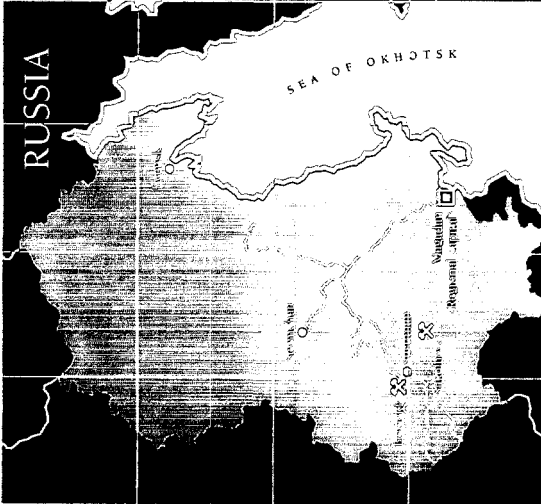
The Amur region is located in the south-eastern part of the Russian Federation and borders China in the south and south-west, the Republic of Sakha (Yakutia) in the north, the Khabarovsk Territory

in the north-east and east, and the Jewish Autonomous Region in the south-east. The Amur River extends along 1,246 km of the southern border of the region and is the official dividing line between Russia and China. There are nine cities, 24 towns and 616 villages in the Amur Region.

Key facts:

Total area:	363,700 km ²
Population:	1,038,000 (approx)
Capital city:	Blagoveshchensk
Key industries:	power (50.7% of regional industrial production), non-ferrous metallurgy (14.8%), coal (12.7%), food (10.8%), forestry and woodworking (2.9%)
Key infrastructure:	Buretskaya and Zey'skaya Hydroelectric Power Plants, Zabaikalskaya section of Trans-Siberian Railway, Baikal-Amur Railway, Chita-Khabarovsk Highway (part of Moscow-Vladivostok Highway), Blagoveshchensk International Airport and Svobodny Cosmodrome
Distance from Moscow:	7,985 km



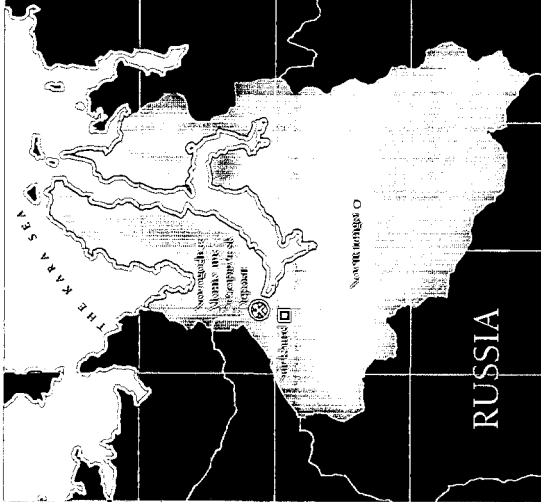


The Magadan region

The Magadan region is home to the primary assets of Group's Omchak joint venture. The Magadan region holds c.15% of explored reserves of gold ore and 11% of placer gold of the Russian gold resource balance. Annual gold production of the region is 740-850,000 ounces. More than 200 companies are involved in exploitation of mineral resources, but of these, more than 60% of regional gold production is contributed by five companies including the Omchak JV.

Located in the north-east of Russia and with coastlines on the Arctic and Pacific Oceans. The Magadan region also has reserves of silver, copper, coal and hydrocarbons and prospects for oil and gas are considered high.

Key facts:
Total area: 461,400 km ²
Population: 225,600 (approx)
Capital city: Magadan
Key industries: mining (60% of industrial production), fishing (8%), fuel and energy (20%), engineering and metalworking
Key infrastructure: Kolyana Highway, Port of Magadan, Magadan International Airport
Distance from Moscow: 7,110 km

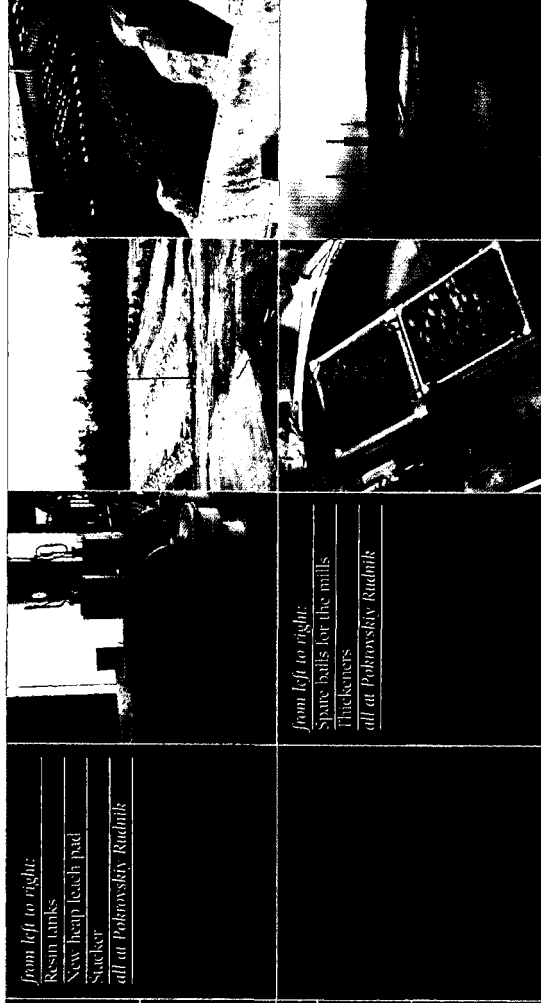


Yamalanenetsky Autonomous Okrug

The Yamalanenetsky Autonomous Okrug is home to the development assets of the Group's subsidiary YamalZoloto. Due to its prominence as an oil and gas producing region, there is an abundance of local infrastructure the hub of which is the city of Salekhard located very close to the YamalZoloto assets.

The oil and gas industry is the leading economic sector with more than 90% of Russia's natural gas and 12% of its oil produced in the Okrug. Abundant deposits of solid minerals in the area, the subsurface of the Polar Urals in the western part of the Okrug contains commercial quantities of many valuable resources.

Key facts:
Total Area: 69,000km ²
Population: 500,000 (approx)
Capital city: Salekhard
Key industries: oil and gas (93% of industrial production), mining, fishing, forestry and wood working and production of building materials.
Key infrastructure: 'Yamal Roads' programme, gas pipelines (Severnnoe Siyantse, Urengoi-Chelyabinsk and Urengoi-Uzhgorod to Western Europe), Yamal-Europe pipeline project, oil pipelines, (Tarasovsky-Kholmogory and Kholmogory-Western Surgut)
Distance from Moscow: 2,436 km

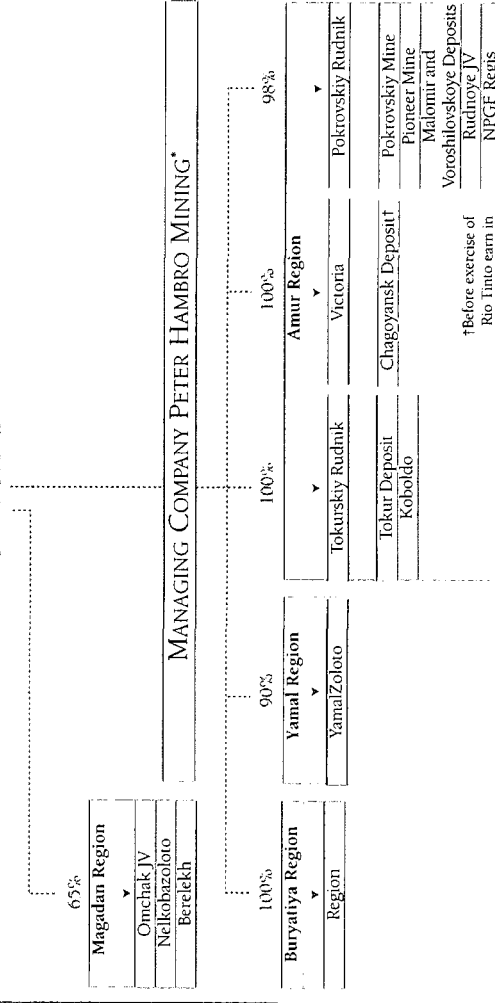


from left to right:
Resin tanks
New heap leach pad
Stacker
all at Pokrovskiy Rudnik

from left to right:
Spare balls for the mills
Thickeners
all at Pokrovskiy Rudnik

Simplified Group Structure

PETER HAMBRO MINING PLC OWNERSHIP %



MANAGING COMPANY PETER HAMBRO MINING*

* The Management Company has no ownership of any of the Group's assets. See Note 14 to the accounts.

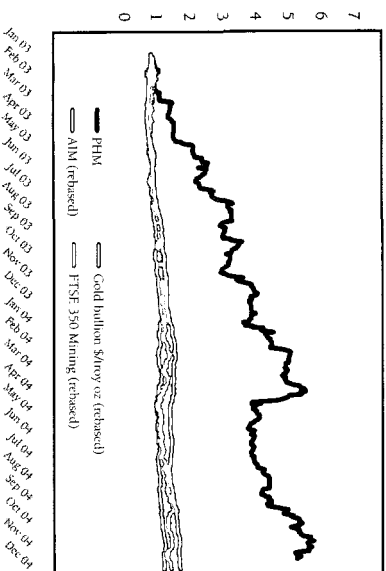


Mr Peter Hambro
Executive Chairman

CHAIRMAN'S STATEMENT

I am delighted to report that we celebrated the Group's 10th anniversary with record high production and profitability on top of further exploration and development success. Russia is constantly evolving and continues to prove itself as a highly remunerative location for our company. I look forward to the next ten years.

Share price performance 2003-2004



Every chief executive dreams of a percentage increase in operating profit that is larger than the percentage increase in turnover, and it is to the eternal credit of Pavel Maslovsky, my friend and Russian business partner, and his team that the Group has realised just such a remarkable achievement in the tenth year of its existence. His report, as usual, deals with the operational aspects of the Company.

During the year we have continued an active corporate development programme, making acquisitions and starting new development and exploration programmes for some of our assets. Among the new developments, the start of the collaboration with Rio Tinto has a promising beginning and the exploration at YamalZoloto's Novogodnee Monto indicates a positive re-evaluation of the gold asset that was originally acquired. We also look forward to a collaboration with Norilsk Nickel's gold mining company, Polyus, at Barnskoye.

Since the year end we completed the purchase of the centre of Malomir, a deposit in the north east of the Amur Region that has long been high on our wish list. Our policy of obtaining the outlying areas of the deposit first was probably a significant help in enabling us to obtain some 5.4 million ounces of reserves and resources for less than US\$1.0 million. Malomir is one of the three deposits on which we will concentrate our exploration activities in 2005.

To help benefit from operational synergies, better promote the Group's substantial exploration and development portfolio and prepare the Company for future dividend payments, we are in the process of a restructuring. Ownership of the Group's individual assets is not changing but they have been regrouped as follows: 1, Pokrovskiy/Pioneer; 2, Amur North East Belt; 3, YamalZoloto; and 4, Portfolio Assets. Further to this a new company has been formed as a subsidiary of Peter Hambro Mining to manage the assets.

The Group has a production forecast of 271,000 ounces for 2005. Pokrovskiy should contribute 176,800 ounces to this total. The contribution of the Omchak joint venture complicates this somewhat as it is governed by dividends due from the joint venture's assets. Shortly after the Group announced

preliminary results, dividends were declared by these joint venture companies and, in the event that the joint venture receives this c.US\$3.6 million, the Group's share of attributable production could fall between 20-30,000 ounces.

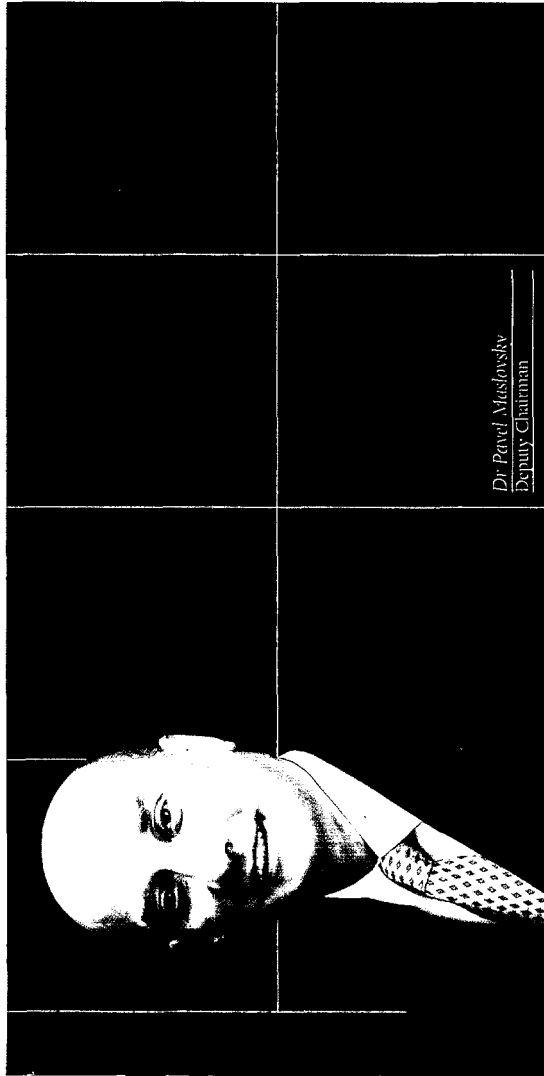
The Company's reputation has grown strongly and the share-price chart on this page indicates that investors share our optimism about the future. During the year we have noticed significant changes in our share register – saying sad goodbyes to some of the institutions that were our supporters when the Company's shares were first admitted to trading on AIM and we welcomed new investors. It is our hope that investors will be able to buy shares and sell them at a profit and it is gratifying that some large holdings in the Company have changed hands in a rising share-price environment. I am grateful to those brokerage houses that have instituted analytical coverage of our Company that has helped make all this possible.

Among our new shareholders we are particularly pleased to welcome International Finance Corporation, the private sector investment arm of the World Bank/IMF. I believe that IFC's shareholding is an endorsement of what we are trying to do and we have already noted the benefits from this in the increased enthusiasm among project finance banks to act as providers of the debt funding that we will need to bring our new projects into operation.

I remain confident that Russia is an excellent place to be a gold miner and believe that the pro-business political environment is beneficial to the Group.

Once again I look forward to another successful year in 2005 – with attributable production expected to be 271,000 ounces of gold – and am grateful to shareholders, management and staff for their continuing support.

Mr Peter Hambro
Chairman

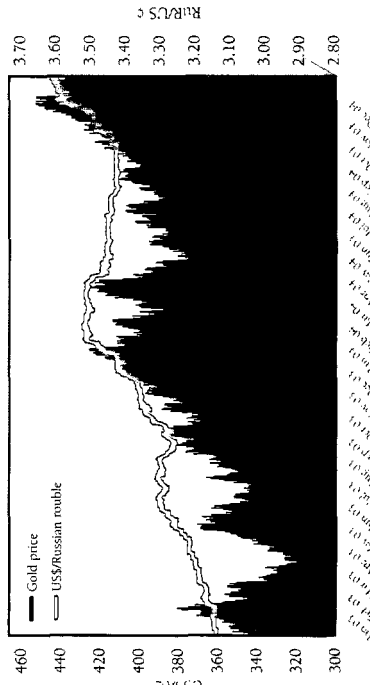


Dr. Pavel Maslovsky
Deputy Chairman

DEPUTY CHAIRMAN'S STATEMENT

A further year of consolidation for the Company. In an environment of increasing raw material prices, we have managed to maintain almost constant operating costs whilst increasing attributable production by 40%. We are making good progress toward achieving the Group's 2009 million ounces per annum production target and have also made some selected acquisitions adding to our reserve and resource inventory to continue growth beyond this.

Gold price and Rouble exchange rates 2003-2004



Once again it gives me great pleasure to complement the information in the statement from my friend, Peter Hambro, with some details about the operational side of the Group and our hopes for the future. It is particularly pleasing to do this against a background of success within the Group. The continued flourishing operation of the resin-in-pulp plant at Pokrovskiy and, even more importantly, the 50% capacity increase that our engineers have achieved there, must surely be the highlight of the year. Further to this I am pleased to report that we have taken the first steps to increase the mills capacity again – this time to 2.2 million tonnes of ore per year – and we expect this to be completed during the second half of 2006.

Feeding the expanded plant's and the heap-leach's demand for ore, and catching up with the stripping, has been a challenge for our miners and production geologists to which they have responded well and the only, albeit temporary, drawback has been the strain that it has put on our assay laboratory capacity. I am glad to say that we have completed construction of three new laboratories giving us one of the largest laboratory capacities in Russia and the belief that assay delays experienced by the exploration teams will be a thing of the past.

Exploration has been concentrated on the Pioneer deposit, from which we expect the first stage of our next expansion to develop. In July, based on the data we expect to receive from the Micromine planning facility, we plan to take the momentous decisions on the future development of this project. This will involve choosing the direction for the feasibility study for the treatment of five million tonnes of ore per year with an associated heap-leach operation for low grade ores. During 2004, we completed successful trial mining and bulk sampling of Pioneer ore.

The expansion plans will be made alongside planning for the second stage of development at Pokrovskiy, when we also expect to take decisions on the mining and processing of ore from the outlying flanks of that deposit.

At the same time we expect to receive upgraded geological and metallurgical data from the newly acquired deposit at Malomir, where previously completed exploration work is relatively advanced and with positive results thus ranking the project high in our strategic planning. Significant dataflow from the above projects for the time being have somewhat eclipsed work at Tokur and Voroshilovskoye but we continue to progress these projects.

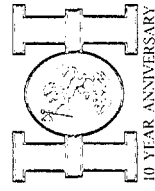
In the Polar area the US\$4.5 million exploration expenditure has yielded encouraging results in the YamalZoloto licence area and we are studying the complex metallurgy of the deposit comprising gold, iron and cobalt.

There is no doubt that the number of projects we have is impressive and I am delighted that Rio Tinto and Polyus, the gold arm of Norilsk Nickel, have proposed that we can act for/with them in the exploration and development of gold deposits in the Amur Region. I expect that this type of co-operating will develop further.

We are in the process of reorganising the structure of our Russian operations in a way that ownership and operations are divided to increase operational efficiency and corporate transparency. Accordingly, a new company, Management Company Peter Hambro Mining, has been formed in Russia to carry out operations and, where possible, ownership of the licences will be held more directly by Peter Hambro Mining plc, the London traded company.

I share Peter's optimism for the future and express my thanks to my Russian colleagues for all that has been achieved in the past 10 years.

Dr Pavel Maslovsky
Deputy Chairman





Sergei Ermolenko – General Director

Mr Ermolenko progressed from underground miner to General Manager of a gold mine in the Russian Far East over a 20 year period. He is General Manager of Pokrovskiy Rudnik and is such is responsible for the smooth running of operations in the Amur Region.



Valery Alexeev – Chief Engineer

Mr Alexeev is a qualified engineer and has worked in process engineering in the gold and heavy metals industry, managing design and construction of the Muruntau plant in Uzbekistan and treatment plants in Russia. As Chief Engineer he brought the Pokrovskiy mine and plant into production.



Andriy Luschet – General Director

Mr Luschet, was appointed General Director in April 2004. He is a qualified geological engineer and lawyer. He worked at a number of geological research institutes specialising in Russian Far East and subsequently became a Vice Governor of the Amur Region before joining the Group.

OPERATIONS REPORT

2004 was a highly satisfactory year for Pokrovskiy Rudnik, primarily as we saw a continued increase in production and profitability during the year. The plant saw a 50% expansion in capacity and the mining fleet expanded accordingly meeting the increased demand for ore as well as advanced stripping of over a million tonnes of waste material. The Group has a 2009 production target of one million ounces per annum in which Pokrovskiy plays a key part. We have made significant development with plans for further expansions in capacity.

POKROVSKIY RUDNIK

REPORTED OPERATING HIGHLIGHTS

Mining

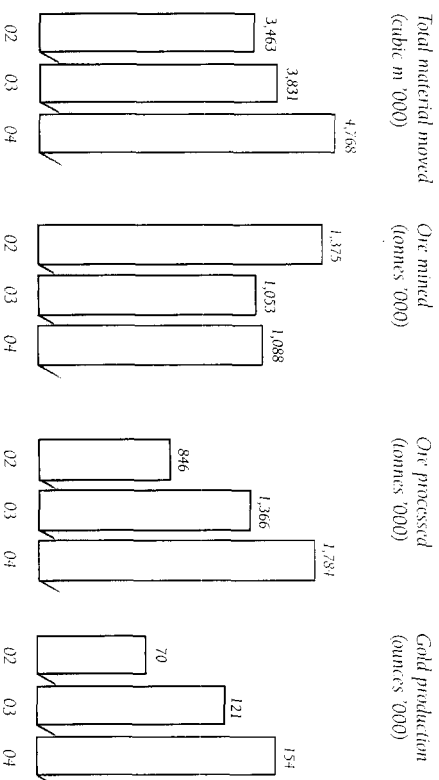
- > 24% increase in total material moved and 23% of total was advanced stripping
- > Expansion and diversification of mining fleet with new and larger trucks and shovels
- > JORC standard reserves and resources of Pokrovskiy pit shell demonstrating reliability of Russian system of classification
- > Successful Pioneer trial mining exercise

Processing – resin in pulp plant

- > Successful completion of 50% expansion of Pokrovskiy plant capacity
- > Decision to undertake a further interim expansion to increase capacity to 2.2 million tonnes a year to be commissioned in the second half of 2006 at a cost of c. US\$4 million
- > Successful Pioneer bulk sample processing exercise
- > Operating costs per ounce kept almost constant in an environment of increasing input costs

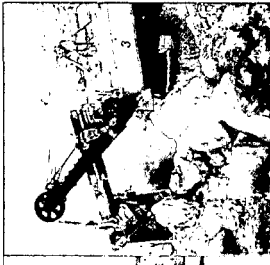
Processing – heap leach

- > 34% increase in recovery due to double stacking process
- > Work completed on maintenance programme and construction of new pads to expand capacity to one million tonnes per annum



from left to right:
New truck fleet
Atlas Copco Inc.
Electric shovel
all at Pokrovskiy Rudnik

“We would like to thank all operating and development staff at Pokrovskiy Rudnik for another excellent year.”



left:

Open pit mining at Pokrovskiy Rudnik

left:

Three milling circuits at Pokrovskiy Rudnik

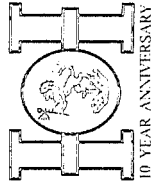


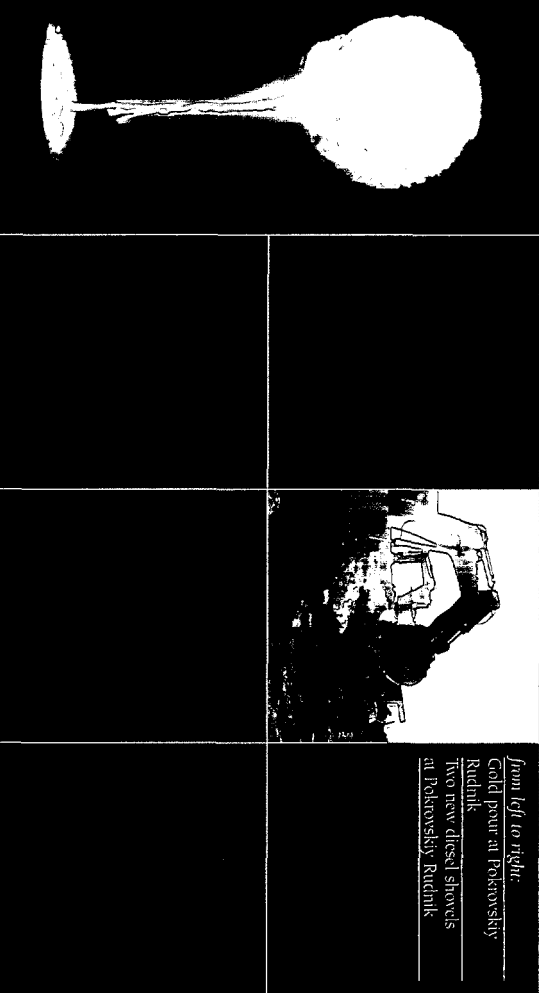
Peter Hambro Mining schedule of mining operations

Units	2004	2003
Pokrovskiy Deposit		
Total material moved	'000 m ³ 4,540	3,831
Including advanced stripping	'000 m ³ 1,028	-
Ore mined	'000 tonnes 1,045	1,053
Grade	g/t 3.4	3.5
Gold	'000 oz 113.7	116.9
Including rich ore	'000 tonnes 608	656
Grade	g/t 4.5	4.5
Gold	'000 oz 88.5	95.4
Pioneer Deposit		
Total material moved	'000 m ³ 228	-
Ore mined	'000 m ³ 43	-
Grade	g/t 7.6	-
Gold	'000 oz 10.4	-
Total material		
Total material moved	'000 m ³ 4,768	3,831
Ore mined	'000 tonnes 1,088	1,053
Grade	g/t 3.6	3.5
Gold	'000 oz 124.2	116.9

Peter Hambro Mining schedule of processing operations

Units	2004	2003
Rip plant		
Ore from Pokrovskiy pit	'000 tonnes 673	661
Grade	g/t 4.2	4.4
Gold	'000 oz 90.6	93.1
Ore from stockpiles	'000 tonnes 454	202
Grade	g/t 3.1	3.6
Gold	'000 oz 45.5	23.4
Pioneer (bulk sample)	'000 tonnes 38	-
Grade	g/t 8.4	-
Gold	'000 oz 10.1	-
Total milled	'000 tonnes 1,165	863
Grade	g/t 3.9	4.2
Gold	'000 oz 146.2	116.6
Recovery	% 90.7	90.9
Gold recovered	'000 oz 132.7	106.0
Heap leach		
Ore stacked	'000 tonnes 620	503
Grade	g/t 1.8	2.1
Gold	'000 oz 35.3	34.1
Recovery	% 60.0	44.8
Gold recovered	'000 oz 21.3	15.3
Total		
Total gold recovered	'000 oz 153.9	121.2





from left to right:
Gold pit at Pokrovskiy
Rudnik
Two new diesel shovels
at Pokrovskiy Rudnik

Mining
Mining operations expanded significantly during 2004 in order to fulfil the increasing demand for ore from the expanded Pokrovskiy mill. Such was the success of the expansion and optimisation programme that the mill feed demand was met and the fleet also undertook over one million cubic metres of advanced stripping.

As part of the expansion and optimisation programme, the Group invested in a number of additions to the mining equipment. To the transport department the additions included ten new Belaz 45 tonnes dump trucks when previously the maximum capacity trucks operated were 30 tonnes. Due to the ease of availability and cost effectiveness of electricity before 2004 the Group had only used Russian made electric shovels at Pokrovskiy. During 2004 we added two new Komatsu-Demag diesel hydraulic excavators with bucket capacities of 10 and 5.7 cubic metres respectively.

Processing – Resin in Pulp plant

The focus of development work was on Pokrovskiy's new milling circuit, which enlarged the throughput capacity of the plant by 50% to 1.5 million tonnes per annum at a cost of c.US\$5 million. A highlight of this achievement was that whilst the construction work was carried out during the year, at no time was production affected in the other milling circuits.

As an interim step towards the delivery of the Group's 2009 target of one million ounces per annum production, the decision was made to construct a further production line at the Pokrovskiy Resin in Pulp (RIP) plant. This construction which is expected to be commissioned in the second half of 2006 has an estimated cost of c.US\$4 million and would take total Pokrovskiy milling capacity to 2.2 million tonnes per year. The Group is considering the merits of including a gravity separation circuit at the head of this production line in order that further high grade Pioneer ore can be treated effectively at Pokrovskiy.

Trial processing of Pioneer ore using the Pokrovskiy mill, was carried out successfully. The results have allowed the Group to develop the pre-feasibility study on the Pioneer deposit. The study showed there was significant content of visible, large gold particles in the ore and during processing these were found to accumulate and remain in the milling process rather than flow with the invisible particles to the leach tanks. This anomaly made the gold recovery slower than expected during the period. Accordingly the gold in the process circuit, for which the Group does not take an accounting credit, was unusually high at

the year end. This gold in circuit increased gold production during the first quarter of 2005 accordingly. Developments at the Pioneer deposit are discussed in greater detail in the relevant section of Exploration and Development.

Processing – heap leach

The major development at the heap leach operation was the introduction of double stacking. This process simply entails stacking a proportion of ore before applying the treatment solution then stacking the heap higher and again applying the solution – the bottom layer then receives approximately two times the leaching. Double-stacking has lifted recovery by 40% to 60% which has generated a similar increase in gold recovered from only a 23% increase in stacked ore.

Work commenced and completed during 2004 on the construction of a new heap leach pad. This pad is being used as an alternative to the existing two 6-year-old pads during the first half of 2005 whilst they are the subject of essential maintenance. Following this maintenance period the pad should increase heap leach capacity to one million tonnes per annum from August 2006.

Operating costs

We are proud that costs have remained relatively constant when compared to the 10% increase of input costs. This was achieved as a result of the increased production rate at the RIP plant, together with constant production support costs and mining optimisation that allowed a reduction of 10% in direct mining expenses.

Direct mining expenses for Pokrovskiy during 2004 were 30% labour, 28% energy and 42% raw materials.

2005 and onwards

We have a targeted increase of gold production from Pokrovskiy Rudnik of 15% to 176,800 ounces for 2005. This increase in production is expected to come about primarily from the 50% increase in throughput capacity being felt for a full year of production during the year. Due to the additional efforts required to process the coarser grade Pioneer ore it is not expected that further bulk sampling will take place during 2005 but the proposed gravity circuit in the 2005 interim expansion would make this a possibility in 2006. As mentioned above we are planning an interim capacity increase to 2.2 million tonnes per annum development on which is under way and should be finalised in the second half of 2006.

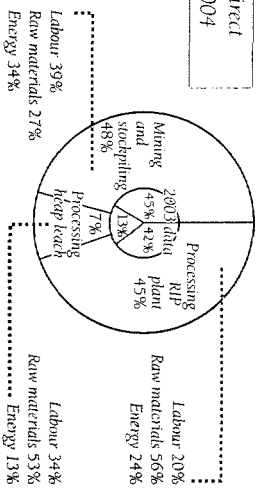
Gold Institute Standard – cost per ounce

	2004	2003
Russian reported operating costs	\$135.8	\$136.0
Per Gold Institute Standard for Reporting Production Costs		
Direct mining expenses	\$73.0	\$80.3
Third-party smelting, refining and transportation costs	\$6.1	\$3.7
By-product credits	(\$0.2)	(\$0.3)
Other	\$28.0	\$20.8

Cash operating costs	\$106.9	\$104.5
Royalties	\$22.7	\$22.1
Production taxes	\$5.1	\$5.0

Total cash costs	\$134.7	\$131.6
Non-cash movement in stock	\$12.4	\$7.6
Depreciation/Amortisation	\$37.2	\$35.8
Total production costs	\$184.3	\$175.0

Pie chart breakdown of direct mining expenses (CIS) 2004



OMCHAK JOINT VENTURE

Omchak JV
ZAO Gold Mining Company Omchak (the 'Omchak JV') had a successful year producing 88,900 ounces from its two operating assets in the Magadan region. A slight drop off in grade of ore mined at Shkolnoye was the primary cause of the 8% decrease in production although Peter Hambro Mining's attributable production increased 102% due to the effects of a full year's participation in the JV and an increase in the Group's ownership during the year to 65%. Peter Hambro Mining's participation in the Omchak JV increased from 50% to 65% in April 2004 in accordance with the terms of the original joint venture agreement.

Nelkobazoloto

Shkolnoye is a small underground mining operation mining high grade gold ore. The operation mined 51,000 tonnes of ore in 2004 and processed 65,000 tonnes, the difference being made up from the ore stockpile at site. ZAO Nelkobazoloto, in parallel with mining of the Shkolnoye deposit, has been carrying out preparatory development work to ensure the efficient mining of more than 110,000 ounces from levels +600 m and +750 m in 2005-2008, the gold grade in the explored resource blocks is up to 32 g/t. Switching of underground work to the lower horizon from 2005 opens up the possibility for estimation of the quality of gold resources on levels +350 m and +650 m. Preliminary geological exploration data suggests that ore bodies in the Shkolnoye deposit can be traced to depth, maintaining their orientation and continuing to be gold-bearing (gold grades vary 1-36 g/t, in the deepest hole at level 350 m reaches 543.5 g/t). Fairly conservatively, the additional potential of lower levels of the Shkolnoye deposit can be estimated as 60-70,000 ounces gold with average grade up to 16-22 g/t.

Berelekh

OAO Berelekh operates an alluvial mining enterprise in the Magadan region. During 2004 Berelekh installed a WA-420 loader on the open-pit development of gold-bearing placer deposits of the upper River Kolyma, making it possible to increase the throughput volume of gold-bearing sand, gold production, and consequently profitability.

About 40 shallow placers are currently being worked, many of them known since 1937-39, and still of commercial interest. The potential of developed

placer regions in the Kolyma basin is far from exhausted. For example, in the placer of Maldyak stream (worked since 1937), in the 2004 season, with a single excavator, 129.2 ounces of gold to a fineness 922 was produced in one 24 hour period.

Operating costs

Omchak JV reported costs that on an annual basis have remained significantly constant. 2004 total cash costs of US\$306.7/ounce (2003 - US\$302.2/ounce) and total production costs of US\$327.3/ounce (2003 - US\$319.1/ounce). The Omchak JV was formed in July 2003 and as such reported profit for the period August to December 2003 - taking into account the highly profitable summer months and excluding the higher cost winter months. 2004 reports a full year of revenue and costs - the relative attributable profit line was consequently reduced.

Business development

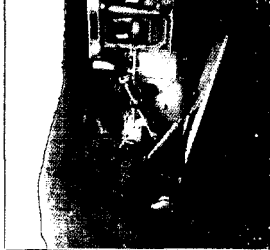
Omchak JV has a forecast production of 87,800 ounces. On the basis of Peter Hambro Mining's current 65% share of the joint venture, the contribution to attributable production is 60,600 ounces. Should the joint venture assets pay dividends, the stake will return to 50% in exchange for a significant increase in cash c.US\$3.6 million, yielding a lower attributable production of 47,400 ounces.

The potential of other deposits in the east of Russia were analysed during the year. Omchak JV acquired 100% of OOO 'Noviye Tekhnologii' in the first quarter of 2005. Noviye Tekhnologii owns five licences for development of placer gold in the Amur region. Evaluated gold resources and reserves is c.100,000 ounces. Development and analysis work suggests that this will increase significantly over the next two years. The depth of the gold-bearing layer is 2-4 m, average gold grade is 0.5-1.2 g/m³. Forecast gold production in 2005 is c.6,300 ounces and it is believed that from 2007, production will be not less than 10,000 ounces/year. Total expenditure on acquisitions and subsequent development is US\$1.5 million.

Noviye Tekhnologii's deposits are near to Pokrovskiy and are thus easily accessible with developed infrastructure with proximity to a supply of earth-moving, processing equipment and experienced labour. The development of these projects should benefit both Peter Hambro Mining and the Omchak JV with a pooling of resources - the original intention of the joint venture from the outset.



from left to right:
Mine workings at Omchak JV
New mining equipment
for Omchak JV



Vladimir A. Bantin

Mr Bantin was appointed General Director in November 2003. He is a qualified geological engineer and is qualified in economics and management. Mr Bantin has worked in gold in the Russian North East for c.25 years and previously chaired the Geological Committee of the Vice Governor of the Magadan Region.

Omchak JV Production Report

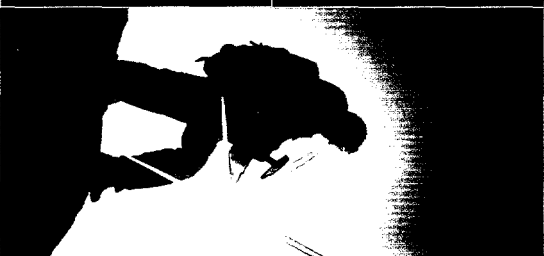
	2004	2003	2002
Nelkobazoloto-Shkolnoye Deposit*			
Ore mined	50.9	42.5	40.5
Ore processed	65.0	56.6	35.6
Ounces produced	27.4	36.6	20.3
Berelekh*			
Waste rock stripped	9,311	9,547	9,675
Sands processed	3,764	7,589	3,733
Ounces produced	61.5	59.9	62.4
Total	88.9	96.5	82.7
PHM attributable	57.0	28.1	n/a

*Production figures are for 100% of each asset



Figure
PHM exploration geologist

Nikolai Vitsov – Group Chief Geologist
Mr Vitsov was in charge of the State Mission that evaluated gold resources in the Russian Far East. He is Group Chief Geologist and is responsible for exploration and grade control at Pokrovskiy Rudnik operations and general development exploration.



EXPLORATION AND DEVELOPMENT REPORT

Attention focused on developing the Pokrovskiy flanks, Pioneer deposit and consolidating the Groups increasing asset portfolio.

Summary table of Peter Hambro Mining's reserves and resources

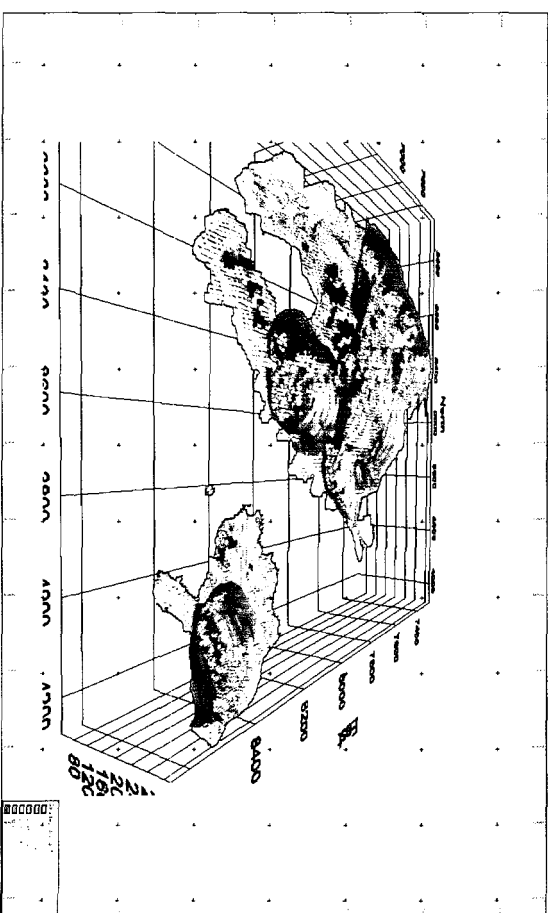
Area	Ore as at 1.1.05		Gold content as at 1.1.05		Gold content as at 1.1.04	
	(0000 t)	(kg)	(000 oz)	(000 oz)	(000 oz)	(000 oz)
Group summary						
C1	28,875	65,259	2,098	2,233		
C2	77,531	167,263	5,378	3,056		
P1	113,168	262,588	8,442	4,417		
P2	386,112	858,978	27,617	21,233		
P3	395,255	1,072,815	34,492	24,726		
Total	1,000,941	2,426,903	78,027	55,665		

* Where data is aggregated as 2 classifications (e.g. C1 & C2), for this summary we have reported the total as the lower of the two (i.e. C2).
* This Group total does not include Reserves and Resources from the Omchak joint venture

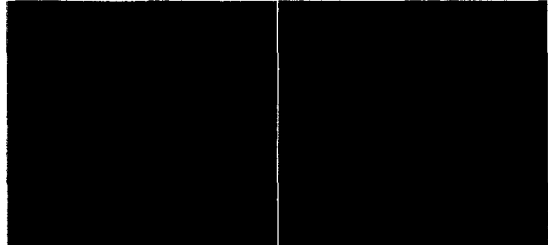
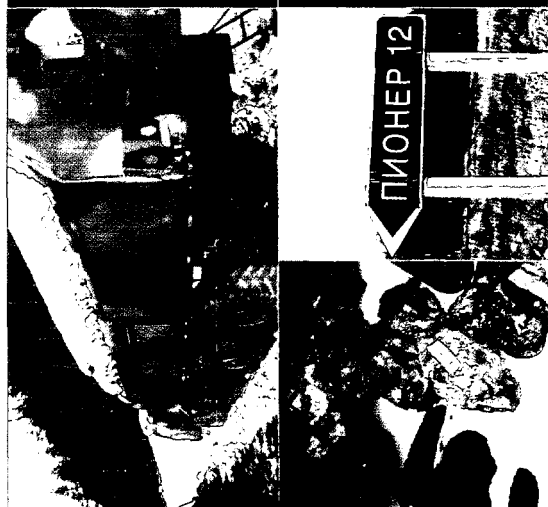
2004 SAW CONSIDERABLE FURTHER EXPANSION OF THE GROUP'S EXPLORATION PROGRAMME, WITH PARTICULAR ACHIEVEMENTS INCLUDING:

- > Completion of the Pokrovskiy MicroMine model with generation of JORC reserves (as shown below)
- > Successful trial mining and bulk sample processing of Pioneer ore
- > Construction of three new exploration laboratories for the Group
- > Redefining the Group's exploration and development portfolio into four key areas to focus development and create operating synergies
- > Exploration collaboration work with Rio Tinto and Norilsk

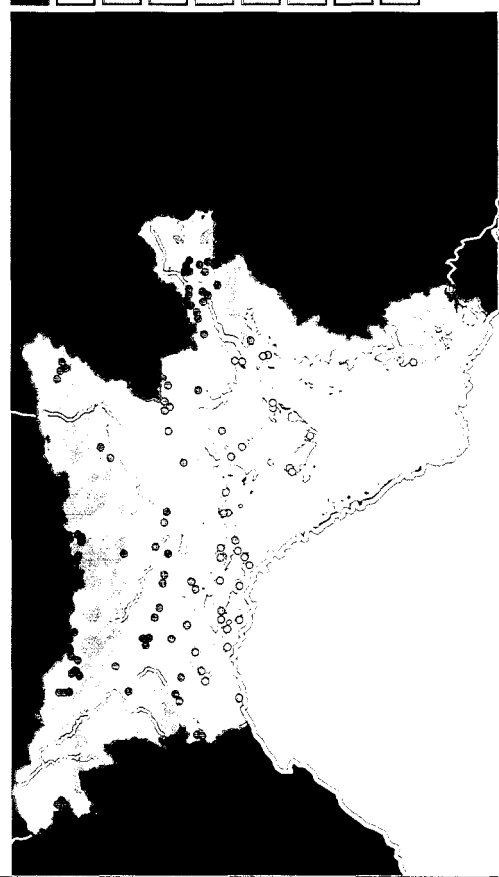
New MicroMine block model of the Pokrovskiy Pitshell



right:
Exploration camp for Amur-NE Ikki



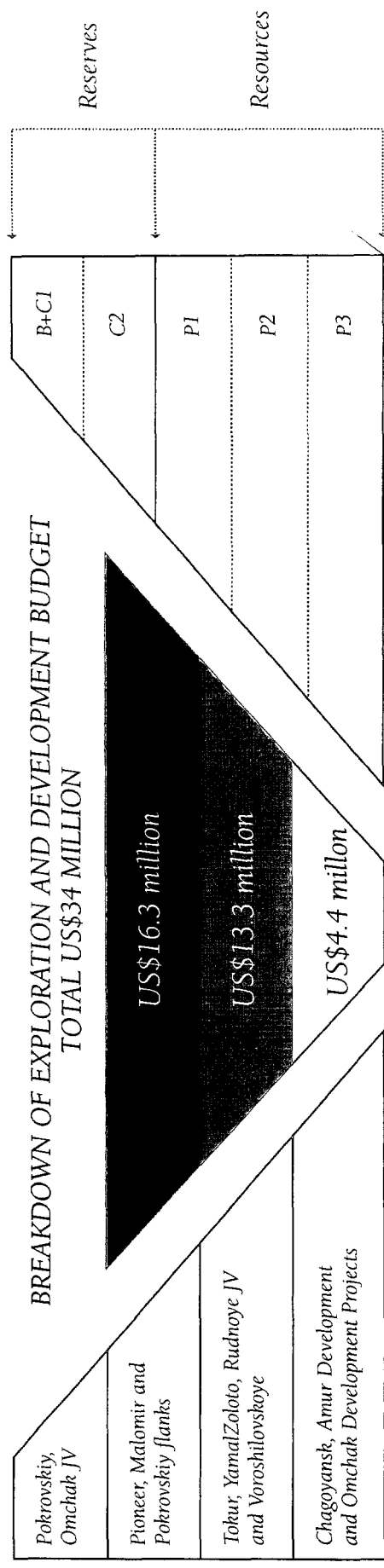
Simplified map showing gold and geology of Amur Region



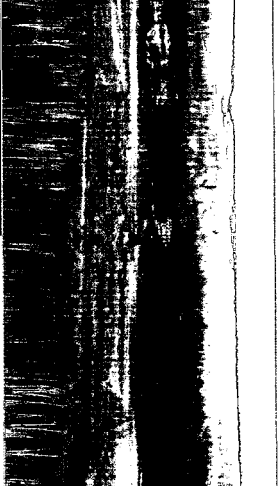
Known gold mineralisation
Neogene - Quaternary
Cretaceous
Jurassic
Triassic
Permian
Carboniferous
Palaeozoic (undifferentiated)
Archaean

Graphic representation of the Group's plan for 2005 – showing projects, budgets and reserves and resources

STRATEGIC RANKING OF PROJECTS

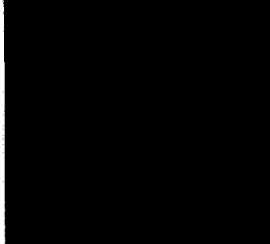
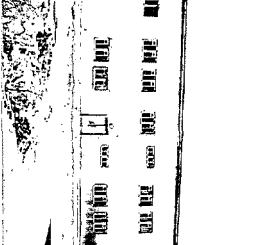


For detailed breakdown of reserves and resources, please see individual project descriptions
This diagram is not to scale

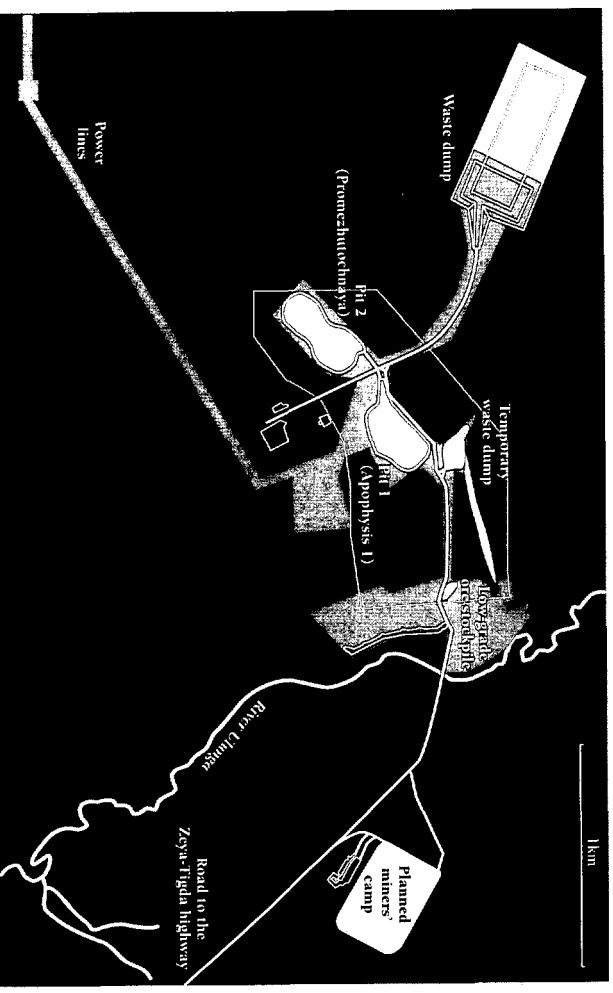


left:
Exploration on the Pokrovskiy flanks

bottom left to right:
High Grade Ore from the Pioneer Pit
Mining of the trial open pit at Pioneer
New Laboratory at Pokrovskiy



Pioneer mining development layout map for the Apophysys 1 and Promezhtuchnaya ore shoots



POKROVSKIY AND PIONEER AREAS

The Group has two principal properties in this south-central part of the Amur region: Pokrovskiy Rudnik (including the exploration areas on its flanks) and Pioneer. Exploration and development has been hampered by a backlog of assay results due to a lack of laboratory capacity – the Group's three new laboratories are now operational and a new reserve and resource report is due to be published in July 2005. The incoming data to date from the programme is highly promising, particularly with regard to Pioneer.

Geological setting

Gold mineralisation here is associated with volcanic and intrusive rocks within a Jurassic-Cretaceous sedimentary sequence cut by extensive block faulting.

Pokrovskiy Rudnik

2004 work
In areas close to the operating open pit, drilling campaigns were conducted in 2004 in order to trace extensions to known ore bodies.

A close-spaced drilling programme succeeded in locating a low-grade south-eastward extension to the Molodezhnyoye ore body. Further drilling has also been carried out around the Glavnoye ore body and has identified additional low-grade mineralisation.

In 2004, a geochemical modelling exercise by Vladivostok consultancy firm Ecotecent, based on the large volume of available geochemical data, indicated a number of significant anomalies within the Pokrovskiy flanks exploration areas. A systematic exploration programme to investigate these targets was started. At the same time the opportunity was taken to drill some of the virgin territory beneath boggy areas of the river.

Trenching has identified material at 3–4 g/t in an 80–100 m extension of the Zeiskoye ore body immediately to the west of the Pokrovskiy open pit, allowing some upgrading of gold resources from P2 to P1.

Currently, on the Pokrovskiy flanks a 500,000 ounces C1+C2 reserve has been established. Together with the geochemical modelling plus confirmatory shallow drilling – and the proximity of the Pokrovskiy mining

operation itself – there is now a high level of confidence in the gold-producing potential being established in the Pokrovskiy flanks.

Future work (2005)

At the Glavnoye ore body, drilling is continuing to establish the extent and quality of the additional mineralisation discovered in 2004. Geological interpretation suggests that in the northern flanks (the Verkhne-Sergeevskiy area), there may well be steeply dipping ore bodies rather than the flat-lying deposits of the Pokrovskiy Rudnik mine area, and if so this would require a different approach: inclined drillholes. Previous work had identified gold grades up to 11 g/t in this area: exploration drilling on the Pokrovskiy flanks is intended to re-start September-October 2005.

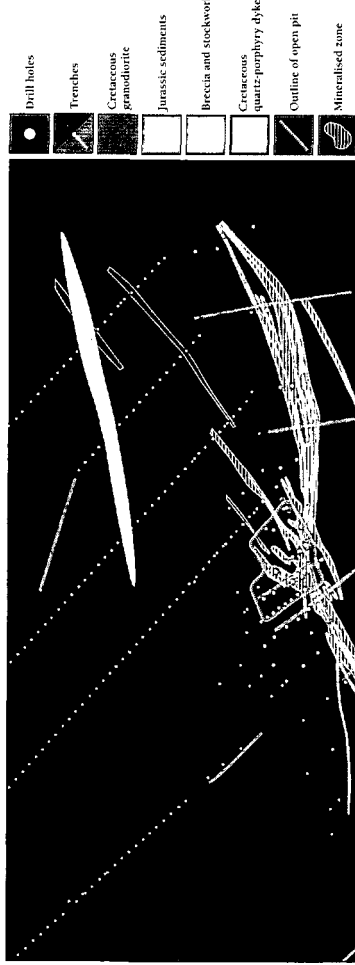
In the Nadvigoviy area, the zone of intense alteration will be explored through a series of shallow holes, and shallow drilling will also be used to investigate anomaly no. 1 near the far northern limits of the licence area.

Pioneer

2004 work
Main efforts were concentrated on delineation of the major Apophysys 1 and associated ore bodies. A test pit was opened on the Apophysys 1 junction with the Bakhnut zone in order to continue the evaluation of the major ore shoot discovered here. The Apophysys 1 ore shoot has now been delineated at surface in the test pit, and has been proved by drilling, to a depth of 240 m from surface: it is steeply dipping to the north-west. It contains oxidised ore to a depth of around 60 m, and primary ore below. The oxide ore is categorised as a C2 reserve. The primary ore beneath is classified as a P1 resource, only because metallurgical test work has not yet been completed on the primary ore.

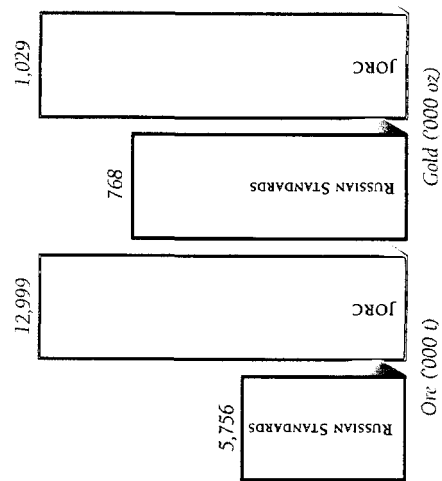
Within the test pit, two additional apophyses have also been identified (nos. 8 and 9), which for mining purposes will be considered together with the main Bakhnut zone. It is likely that this would be mined as a shallow open-pit operation, to a depth of perhaps 70 m, while Apophysys 1 would be suitable for much deeper exploitation including perhaps an underground mine.

Surface geology map for the Apophysys 1 and Promezhutochnaya ore shoots



Pokrovskiy and Pioneer Area – reserves and resources			
Area	Category (B, C or P)	Ore Gold content ('000t) (kg)	('000oz)
Pokrovskiy deposit			
Conditioned ore reserves	C1	18,382	43,129
Low grade reserves	C2	542	1,690
Stockpiles	C1	5,082	8,346
Subtotal for Pokrovskiy deposit		24,006	53,165
Flanks of Pokrovskiy deposit			
Reserves in flanks	C1	1,563	1,197
	C2	13,624	15,956
Exploration areas	P1+P2	92,922	217,368
Subtotal for flanks of Pokrovskiy		108,109	234,521
Total for Pokrovskiy area		132,115	287,686
Pioneer deposit			
Bakhtmut, Promezhutochnaya, Yuzhnaya and Apophysys 1 (cont.)	C2	30,367	65,566
Other exploration areas	C2	614	3,922
	P1+P2	131,991	185,094
Total for Pioneer area		213,521	319,598
Total for Pokrovskiy and Pioneer area		70,174	139,806
C – Russian reserves		275,462	467,478
P – Russian resources			15,030

Pokrovskiy Pitshell Russo-JORC Correlation



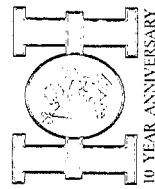
Bulk sampling from the Apophysys 1 ore shoot has shown that gold grades at Pioneer may well have been systematically underestimated because of under-reporting of the coarse fraction. Studies have shown that the minimum representative sample size at Pioneer is 50 kg. At the eastern end of the Promezhutochnaya zone, assays received so far from holes already drilled indicate grades up to 45 g/t and a probable ore shoot analogous to Apophysys 1. At the same time, sampling of a large test pit on the Yuzhnaya zone has indicated continuity of mineralisation at a low grade, but suggested the probability of significant previously unidentified ore shoots. Although quartz veining within the mapped mineralised zones is continuous, it appears that gold is concentrated in ore shoots at bends in the zones and at intersections with other structures. Results from Apophysys 1 confirm this model, with the main Bakhtmut ore zone carrying relatively low grade mineralisation.

Future work (2005)
In 2005, evaluation of Apophysys 1 is planned to continue, with further development of the test pit, a bulk-sampling programme, and pilot-scale processing.

Additional ore shoots to be examined in detail include the eastern end of the Promezhutochnaya zone, where there is an ore shoot similar to Apophysys 1. This will be explored through drilling and a test pit. Assays received so far indicate a strong continuation of high grade ore to depth within this ore shoot.

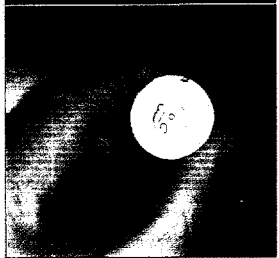
The new geological interpretation leads to identification of potential new exploration targets: the spacing between ore shoots appears to follow a regular pattern – but with a number of ‘missing’ elements, such as in an apparent mineralisation gap between the Promezhutochnaya and Yuzhnaya zones. These areas will be systematically explored to attempt to locate additional ore shoots.

The reserve and resource data table shown is predominately the same as for 2003. Data for 2004 has confirmed these numbers to be correct and the table will be materially updated in July 2005.

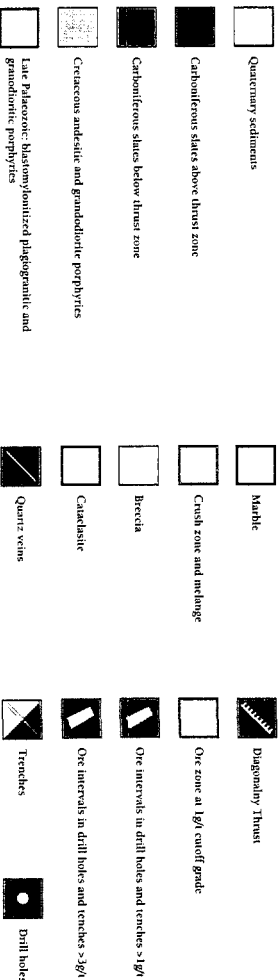
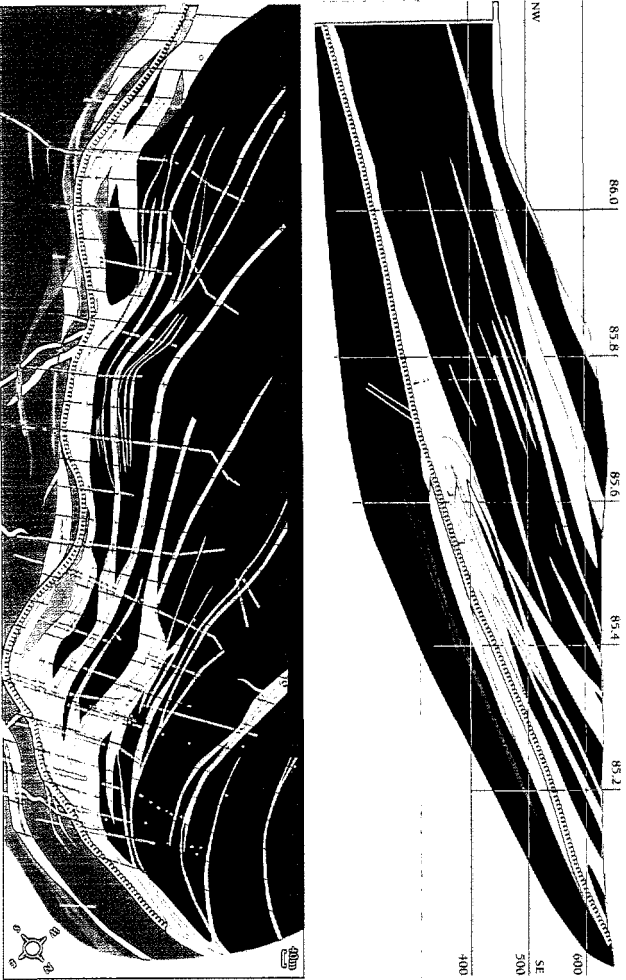




left:
Tokur Mill buildings
right:
Gold recovered from the old Tokur Mill



Malomir: Diagonalhaya ore zone geology in section and plan



AMUR NORTH-EAST

The three principal assets in this part of the Amur region are: Tokur, Voroshilovskoye and Malomir. Active exploration is in progress on all three, and the Group has commissioned a laboratory at Tokur in order to assay samples from these and other Group exploration programmes. Further work is ongoing to develop a regional test plant for gravimetal, flotation and cyanidation metallurgical work for the Groups three assets in the region.

Geological setting

The three assets are hosted by the Palaeozoic sedimentary rocks of the Mongolo-Okhotsk mobile belt, one of the worlds major gold-producing regions. This is a belt of deformation resulting from collision of the Eurasian and Amur plates.

Malomir

The acquisition of the Malomir deposit has been part of a long-term development strategy of the Group. An exploration licence for the Malomir surround was obtained in 2003 at which time some exploration on this area began. The tender for the actual deposit was held in February 2005.

2004 work

Work concentrated on geochemical and geophysical exploration in the flanks of the known deposit, largely to gain an understanding of the geology of this area but, since the acquisition of the mining licence for the central Diagonal zone, is now commencing a major and intensive exploration programme, to confirm and extend the already evaluated 1.4 million ounce C2 reserve and 4 million ounce P1 resource.

The Malomir deposit was originally discovered during an exploration programme in 1966-70. It occurs within a meta-sedimentary sequence including black shales, and there are indications of localised enrichment in platinum-group metals. The principal mineralisation of the main Diagonal zone occurs in an imbricate zone (a set of sub-parallel fracture belts) above the main Malomir thrust fault, which dips gently to the north-west. Mineralisation within these fracture belts is continuous, though there are alternating high-grade and low-grade areas. There are basic to acid igneous dikes which appear to act as controls on the mineralisation.

Reported gold grades within lenticular mineralised sheets in the Diagonalhaya zone are typically between 1 and 5 g/t over thickness of up to 17 m; however, in view of the continuity of mineralisation, at a cutoff grade of 0.5-0.7 g/t there is a single (up to 150 m) ore body - a marginally lower cut off grade increases reserves dramatically. Gold is mainly fine-grained, occurring as free gold with quartz, and minor sulphides. Metallurgical studies carried out so far on the oxide ore suggest that a gravimetal/flotation separation method will yield good recoveries.

Geological considerations suggest also that there is a likelihood of mineralisation along bounding steep faults that cut the deposit on its northern and western sides, provisionally named the Malomirskaya zone and the Stoybinskaya zone respectively. Inclined holes will be drilled in order to intersect these faults which lie beneath river valleys and were hitherto considered merely as boundarities to the deposit. Beyond these faults, exploration of further targets will be continued with a trenching programme in 2005.

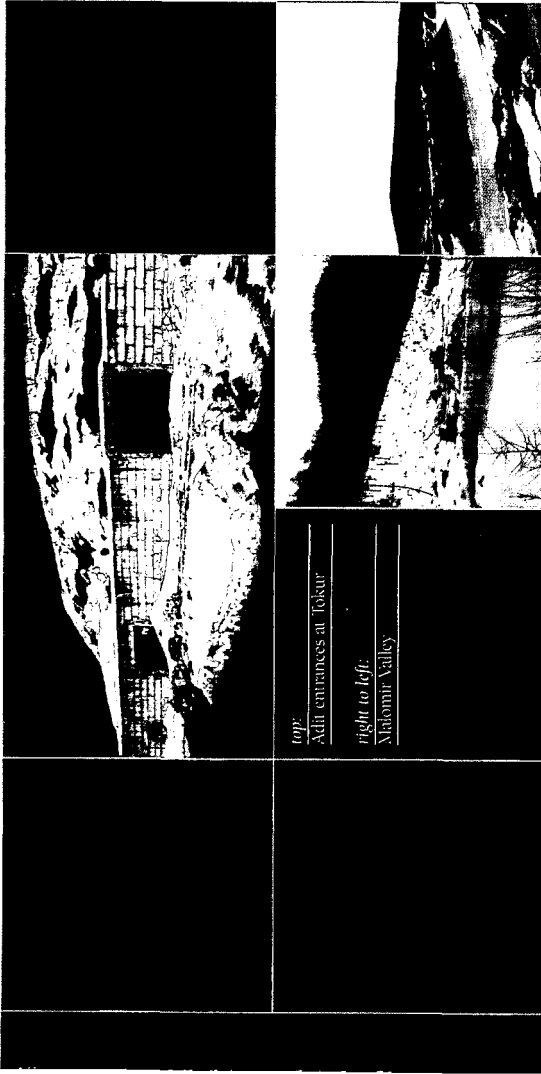
Planned work (2005)

In view of the extensive mineralisation at shallow levels, it is most likely that exploitation would take the form of a single large open pit. To this end, exploration in 2005 will include a major campaign of drilling, with four to five rigs on site to achieve a planned 20,000 m of drilling. All samples will be assayed for PGMs in addition to gold. Prior to the acquisition by the Group, there had been extensive geophysical and geochemical exploration on the Diagonalhaya zone - what is reported now is detailed and systematic exploration work combined with metallurgical test work in order to develop a mine plan.

Tokur

The Company acquired the Tokur deposit in June 2003. Tokur has been mined at different times during the last 60 years, is well served by local infrastructure and is located in an area of intensive historic placer mining.

The exploration and mining licence covers the area surrounding the old Tokur mine and the



top:
Adir entrances at Tokur
right to left:
Malomir Valley

Amur North East Area – reserves and resources

Area	Category (B, C or P)	Ore ('000t)	Ore (t/kg)	Gold content ('000oz)
Malomir deposit	C2	23,350	47,500	1,527
	P1	60,364	132,800	4,270
	P3	50,000	100,000	3,215
Total for Malomir area		133,914	280,300	9,012
Tokur deposit	B	63	636	20
	C1	351	4,262	137
	C2	414	4,898	157
	C2	737	1,252	40
Old workings and stockpiles Glavnoye fault	C1	3,434	7,689	247
	C2	6,442	12,127	390
	P1	13,840	41,038	1,319
Flanks	P2+P3	67,727	199,546	6,416
	P1	14,664	46,550	1,497
	P2+P3	190,445	553,050	17,781
Total for Tokur area		298,117	871,048	28,005
Voroshilovskoye deposit				
Voroshilovskoye and Verkhneminskoye	C1+C2	34	832	27
	P2	7,650	76,500	2,460
	P3	3,750	37,500	1,206
Total for Voroshilovskoye area		11,434	114,832	3,692
Total for Amur North-East belt				
C – Russian reserves		35,025	79,196	2,546
P – Russian resources		408,440	1,186,984	38,162

Innokentevskoye and Tarnakh deposits, which are associated with the Glavnoy fault, one of a number of parallel low-angle thrust faults which appear to control the gold mineralisation.

2004 work

Main emphasis in 2004 was placed on exploring the Glavnoy fault to the east and west of the old Tokur mine. It was established that mineralisation continued along the line of this thrust fault.

Exploration was principally by means of trenches and relatively shallow drill holes – to a maximum depth of just 120–130 m – as it is expected that the deposit would be worked as one or more open-pit mines. So far, new trenches and drillholes in the eastern part of the Tokur mine confirm old data, and similarly, assays of trench samples from around the Innokentevskoye deposit confirm the old data with typical grades of 2–7 g/t. New data allowed the re-classification of some of the old P1 resources to C1 reserves.

At the request of the Board of the Company, an independent resource estimation report was undertaken on the Tokur deposit. This report, a summary of which is available for download on the Company's website, supports the previous resource estimation undertaken by the Group's Chief Geologist.

Future work

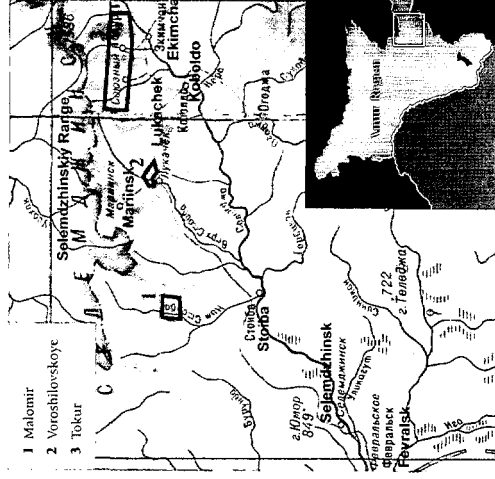
The exploration programme following and along the Glavnoy fault is planned to be continued in 2005, with the intention of completing the trenching programme to the east of the River Malyi Karaurakh. Where trenching establishes the likelihood of an open-pit mining resources, it is intended that it will be followed with shallow drilling.

The laboratory that has already been established to assay exploration samples from the various projects in the north-east Amur region will benefit from the reconstruction of the Tokur plant that will allow for metallurgical testing and pilot-scale processing of ore from Tokur, Malomir, and Voroshilovskoye.

Voroshilovskoye

The Voroshilovskoye Deposit was exploited by prospectors from 1928 through to 1949. Primary operations were centred on the oxide ore at a depth of 10–40 m. Historical data shows the mine produced 2.6 tonnes of gold at an average grade of 14 g/t. The Group obtained the licence for the

Relief map Amur North-East belt



deposit in 2003 and has been developing a comprehensive exploration programme to establish the parameters of the deposit.

2004 work

A small (c.25,000 ounces) but high-grade (20 g/t) C1+C2 reserve has been established in the gold-bearing quartz veins and there are indications that continuing exploration could well increase this by a factor of five.

The major interest at Voroshilovskoye – as at Tokur and Malomir – is the gold potential associated with low-angle thrust faults. A dense geochemical exploration grid on the western part (16 km² or 40%) of the licence area has been completed, but laboratory results are awaited before further work can be scheduled. Geophysical surveys suggest significant sulphide anomalies along the thrust to the east and west of the old Voroshilovskoye mine though oddly not in the area of the mine itself.

Future work

Detailed exploration continues in these areas (with up to 200,000 m³ of trenching planned for 2005), and should accelerate with completion of the geochemical survey analyses which will include the eastern part of the licence area. The result will be delineation of further targets for drilling.

Left:
YamalZoloto core sample in
snow covered tundra

YAMALZOLOTO

Geological setting

This area lies at the northern end of the Urals, on the Yamal peninsula adjacent to the estuary of the River Ob. On acquisition the licence area covered 11 anomalies, one of which, Novogodnee Monno, had significant data. Work to date suggests that Novogodnee Monno may be reclassified as an open pit mineable deposit and that the other anomalies represent very similar style and quality assets. The licence area is well serviced with infrastructure due to its location in the primary oil and gas region of Russia.

Mineralisation in the Novogodnee Monno deposit and surrounding areas occurs principally in skarns (metasomatically altered rocks) associated with igneous intrusions of Devonian-Carboniferous age within a Silurian-Devonian volcanic and sedimentary sequence. There are two main types of mineralisation: massive magnetite-bearing ore bodies, and quartz/carbonate/sulphide stockworks.

YamalZoloto

In April 2004 the Group acquired 90% of the share capital of OJSC YamalZoloto for a total consideration of US\$10.4 million. As part of the total consideration the Group paid US\$5.1 million finder's fee to Tekhgranstroy, a Russian registered company.

2004 work

Novogodnee Monno

Intensive exploration was carried out in 2004 to establish official reserve estimates. High grade gold mineralisation (10-17 g/t) was identified within quartz-sulphide ore zones from surface to 300 m depth, with a total C1+C2 reserve of 400,000 ounces, and there are indications of deeper south-westward extension of the ore body. PGMs have been found, mostly at grades of less than 0.1 g/t, but in two samples at up to 1.8 g/t (of which 90% is platinum). The ore body is emplaced within a magnetite skarn, which is a high grade iron resource. Preliminary metallurgical testing has been carried out, showing that three concentrates can be recovered: a high-grade magnetite concentrate, a cobalt-bearing pyritic concentrate, and a gold concentrate with recovery of 91.4% of the gold.

Petropavlovskoye deposit

This ore deposit lies 600 m west of the Novogodnee Monno deposit. This is a quartz-carbonate-mica-sulphide stockwork and contains gold with subsidiary silver. Metallurgical studies are being undertaken on these ores, similar to those carried out on the Novogodnee Monno material.

Other areas

Geophysical exploration of the licence area identified a number of other anomalies, and these have been investigated, by geochemistry, geological mapping, and drilling.

Future work

Novogodnee Monno

Detailed exploration and metallurgical testing are continuing, and during 2005 a full TEO (pre-leasibility study) is to be prepared, with plans to develop an open pit mine. Since open-pit mining can operate with a lower cutoff grade than the underground operation envisaged by previous owners, it should be possible to increase the total mining reserves accordingly. As soon as possible after completion of the TEO, preparation for plant construction is planned to begin, in order to minimise the time to mine operation. Likely locations for the mill will be close to the railway line which crosses the south-western corner of the licence area.

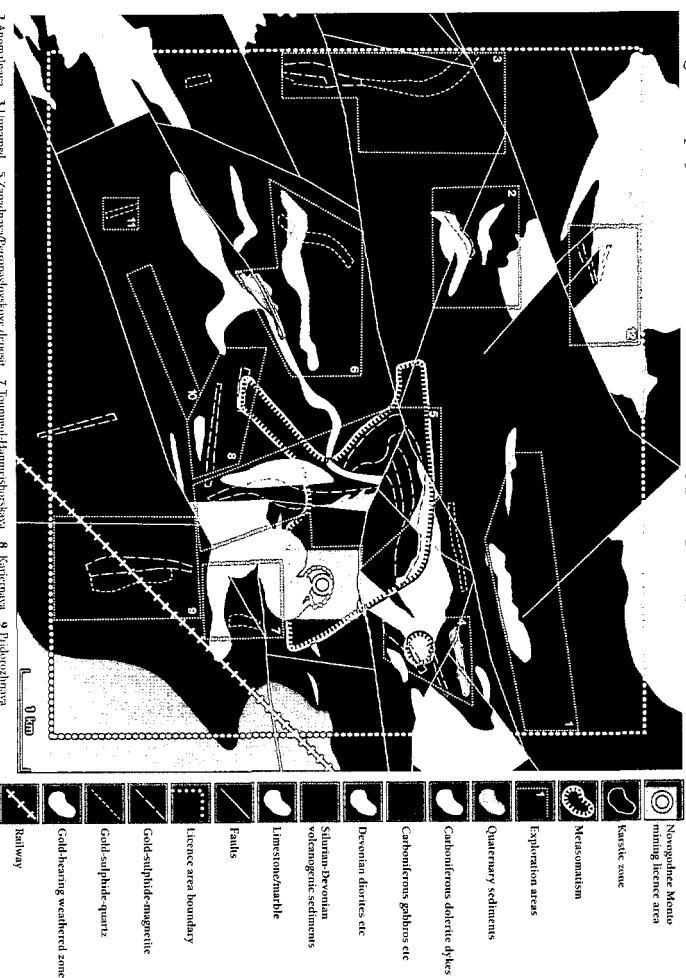
Petropavlovskoye deposit

Once detailed exploration and metallurgical studies are completed, and a mining reserve estimate has been approved (with preparation of a second TEO), application will be made for extension of the Novogodnee Monno mining licence to include this area also.

Other areas

Exploration is scheduled to continue on the various targets, with emphasis on those which can potentially be added at an early stage to the Novogodnee Monno mining licence.

Geological map of YamalZoloto licence area showing principal exploration zones



YamalZoloto Area – reserves and resources

Area	Category (B, C or P)	Ore (000 t)	(kg)	Gold content (000 oz)
YamalZoloto area	C1+C2	1,000	13,000	418
Novogodnee Monno	P1	450	4,500	145
Petropavlovskoye	P1+C2	23,300	35,000	1,125
Touput-Hamneyskorskaya area	P2+P3	78,000	156,000	5,016
Total for YamalZoloto area		102,750	208,500	6,703

Total for YamalZoloto area

C – Russian reserves	1,000	13,000	418
P – Russian resources	101,750	195,500	6,285

PORTFOLIO ASSETS

Chagoyansk

The Chagoyan area lies to the east of the Zeya river in southern central Amur region, about half-way between Pokrovskiy Rudnik and the region's capital Blagoveschensk. Geologically it includes Palaeozoic limestones, sandstones, and interbedded black shales.

In 2004, the Group announced it had signed a letter of understanding with Rio Tinto regarding a joint venture agreement in respect of the Chagoyansk deposit. Following this, the exploration teams of Rio Tinto and the Group has been reviewing the available data and have agreed a development plan which is now being executed.

2004 Work

After preparatory work, exploration started with a multi-spectral aero-geophysical survey of the entire licence area. Many of the geophysical anomalies detected coincide with existing known areas of mineralisation and with primary lead aureoles. Targets which have been identified as of particular interest are Strelka, Dzhurkan, the Chagoyansk polymetallic deposit, and an area of black shales to the south-east of the Chagoyansk deposit.

During the winter, a road across the frozen river Zeya allowed heavy equipment to be moved into the exploration area. Trenching has now started on the Strelka deposit, where gold was discovered in previous manual trenches.

From interpretation of initial exploration work and existing data, a P2 category inferred resource of nine million ounces contained gold has been proposed.

Future work

If gold is discovered in the bed-rock, then detailed trenching will be carried out (provision is made for 100,000 m² trenching in 2005), and initially 10 holes will be drilled within the target areas. It is expected that exploration work in 2005 will establish further reserves and resources.

If the results of the above are positive, then in 2006 it is planned that detailed surface geophysical surveys will be carried out, together with exploration by additional drill holes and trenches.

Regis exploration company

Due to the scale of the exploration work undertaken by the Group, Peter Hambro Mining acquired a majority stake in the regional exploration company NPFG Regis in 2004. Regis has subsequently undertaken exploration at a number of the Group's deposits and has entered in some contracting work for third parties.

Regis has a good reputation in the Russian Far East and a geological team of more than 30 geologists. It owns and leases a fleet of drilling rigs, power units and transport and earth moving vehicles.

Rudnoye Joint Venture

During 2003, the Group entered in to the Rudnoye Joint Venture with the second largest gold producer in the Amur Region. Odolgo, the joint venture's primary asset, has seen previous trenching (14,700 m²) and drilling (1,167 m) proving the ore bodies. Detailed exploration in 2004 to establish mining reserves included trenching at 15-45 m intervals, plus drilling. Much of the gold is coarse grained (up to 305 mm), but mineralisation is irregular so the two main ore zones (steeply dipping, 2-4 m thick) can be delineated only by sampling. Because of the coarseness of the gold and its irregular distribution, the next step will be bulk sampling.

Other assets

The Group holds a number of other exploration and development assets within the exploration and development portfolio. It is planned that discussion of work undertaken and results for these assets will appear on the Peter Hambro Mining website as and when material results are generated.



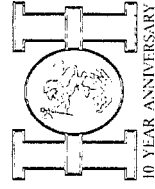
Left: Exploration trays and mobile exploration camp
Right: Assay oven at new exploration laboratory

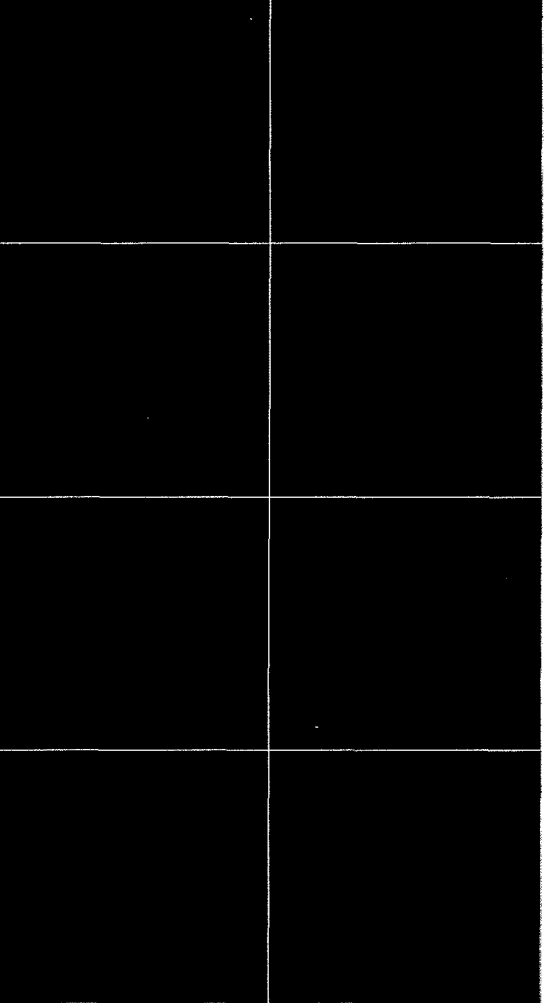


RIO TINTO

Portfolio Assets – reserves and resources

Area	Category (B, C or P)	Ore ('000 t)	Ore (kg)	Gold content ('000 oz)
Chagoyansk	P2	100,000	300,000	9,645
	C2	207	520	17
	P1	550	2,700	87
Odolgo Deposit	P2+P3	2,333	11,719	377
Exploration areas	P2	3,000	15,000	482
	P3	3,000	15,000	482
Bryantinskaya				
Solechnoye ore occurrences		109,090	344,939	11,090
Total for portfolio assets		207	520	17
C – Russian reserves		108,883	344,419	11,073
P – Russian resources				

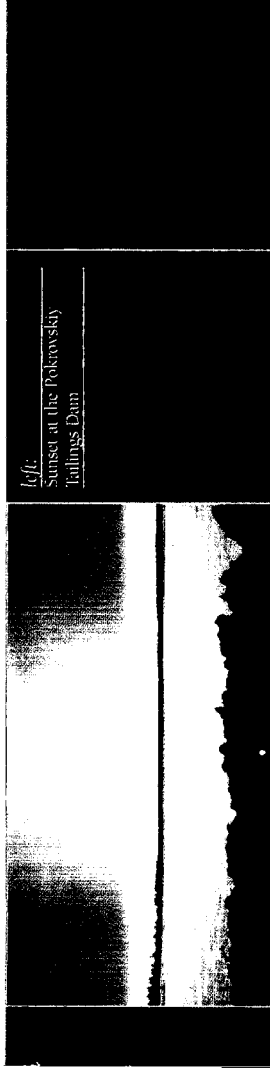




ENVIRONMENTAL AND SOCIAL POLICY REPORT

Protecting the environment and communities in which the Group operates continues to be of paramount importance. In this respect the Group aims to meet both the Russian Government and World Bank Group Standards. The International Finance Corporation is an investor in the Company and has made this decision following an environmental, safety and social due diligence of the Group's operations. This reflects the high standards of the Group's policy on environmental and social management and is just reward for maintaining these for the past 10 years alongside the commercial needs of the Group.





Left:
Sunset at the Pokrovskiy
Tailings Dam

Environmental and social performance indicators

A. Environmental indicators	
Air monitoring	✓
Water monitoring	✓
Tailings management	✓
Reclamation (waste rock mined and storage for reclamation)	✓
Waste management	✓
Occupational health and safety	✓
B. Social indicators	
Workforce analysis	
Employees	1,677 people
% from two localities to mine	44%
Job creation	
New jobs created in 2004	467 people
% Specialists	26%
% Female	15%
Policy of employing from local workforce where possible	✓
Education programmes	
Numbers receiving external education training	54 people
% on graduate and technical degrees	31%
% on postal education programmes	69%
Special efforts made to recruit and train local workers?	✓
Healthcare	
Approximate ratio of on-site employees to medical staff	111.8
Annual health screening provided	✓
Funding provided for employee trips to health resorts	46
Funding provided for employee children trips to health resorts	55
Worker accommodation	
Construction of new worker camp	90 beds
Construction of new specialist/technician camp	16 flats
Engagement with community	
Consultation with local community	✓
Provision of funds to local community	✓
Provision of funds to local charities	✓
C. Economic indicators	
Total taxes paid during 2004 (US\$'000)	11,006
Taxes paid direct to National Government (US\$'000)	2,682
Taxes paid direct to Regional Government (US\$'000)	6,928
Taxes paid direct to Local Government (US\$'000)	1,396

World Bank Group Standards
The Company was very pleased to announce the International Finance Corporation (IFC) investment in Peter Hambro Mining. As reported in the Company's previous annual reports, the Group has always maintained a policy of trying to achieve World Bank standards of environmental and social compliance. The IFC investment followed completion of detailed due diligence including a full environmental and social audit of the Group's operations. It is highly regarded that the Group has managed to satisfy best practice requirements in this area, alongside maintaining the corporate responsibility to deliver profit.

Health and safety
The belief of the Board is that the Group's labour force is the most important asset of the Group. Their continued health, safety and professional development is therefore of critical significance to the future of the Group and as such is aided and monitored on a regular basis. To reinforce this policy health and safety at Pokrovskiy is supervised directly by the Chief Engineer through the Industrial and Labour Safety department. Regular presentations on occupational safety rules and education/certification of staff are held at the Pokrovskiy fully equipped education centre.

Environment
The Environmental Protection Department within the Group is a structural unit of the Production & Technology Department. This department operates in strict compliance with Russian law and international best practice. The Group develops its deposits using technical methods and processes in accordance with the standards approved in the Russian Federation and those that are internationally recognised. All mining operations are conducted in accordance with annual plans which are approved by the State. Atmospheric emissions from the Group's operations have not exceeded permitted limits. Special pollutant minimising equipment is used to prevent an adverse impact on the atmosphere.

Monitoring
One of the most important parts of the Group's environmental policy is a comprehensive daily mining-environmental monitoring system. This system mitigates negative environmental impacts, protects subsurface and water resources and provides for occupational safety of the workers. To facilitate this Pokrovskiy has its own laboratory where environmental tests are carried out in accordance with environmental monitoring regulations.

The monitoring team's report for 2004 shows: there was no cyanide pollution of the surface or ground waters recorded; the general chemical composition of surface and ground waters did not change as a result of technogenic impacts of the minefield development;

concentrations of the standard chemical compounds do not exceed norms; there was no adverse impact on the state of flora and fauna within the area of the Group's operations.

Social responsibilities
The Group has a total workforce of approximately 1,700. The Group abides by the Russian legal requirements on working time, occupational safety, salaries as well as social guarantees. In addition, Group personnel may be entitled to other benefits, including pensions and medical care. The site camp at Pokrovskiy includes eight houses for personnel, canteen, bath and laundry centre, boiler house and a number of other buildings. Typically employees work and are based in the camp on the basis of 15 days on, 15 days off and work 12 hour shifts, which include a 1 hour meal break and 4 further short breaks. Employee rooms are equipped with TV sets and employees have access to a library, lounges and excellent sports facilities. The Pokrovskiy medical centre has high quality facilities and qualified staff. There is an ambulance on site and the centre can benefit from the services of the local hospital on a contractual basis. Annual health screening, including x-ray lung screening is provided for all employees by the Group. The Group plans to enlarge the medical centre and to include dentistry services at site during 2005 and 2006.

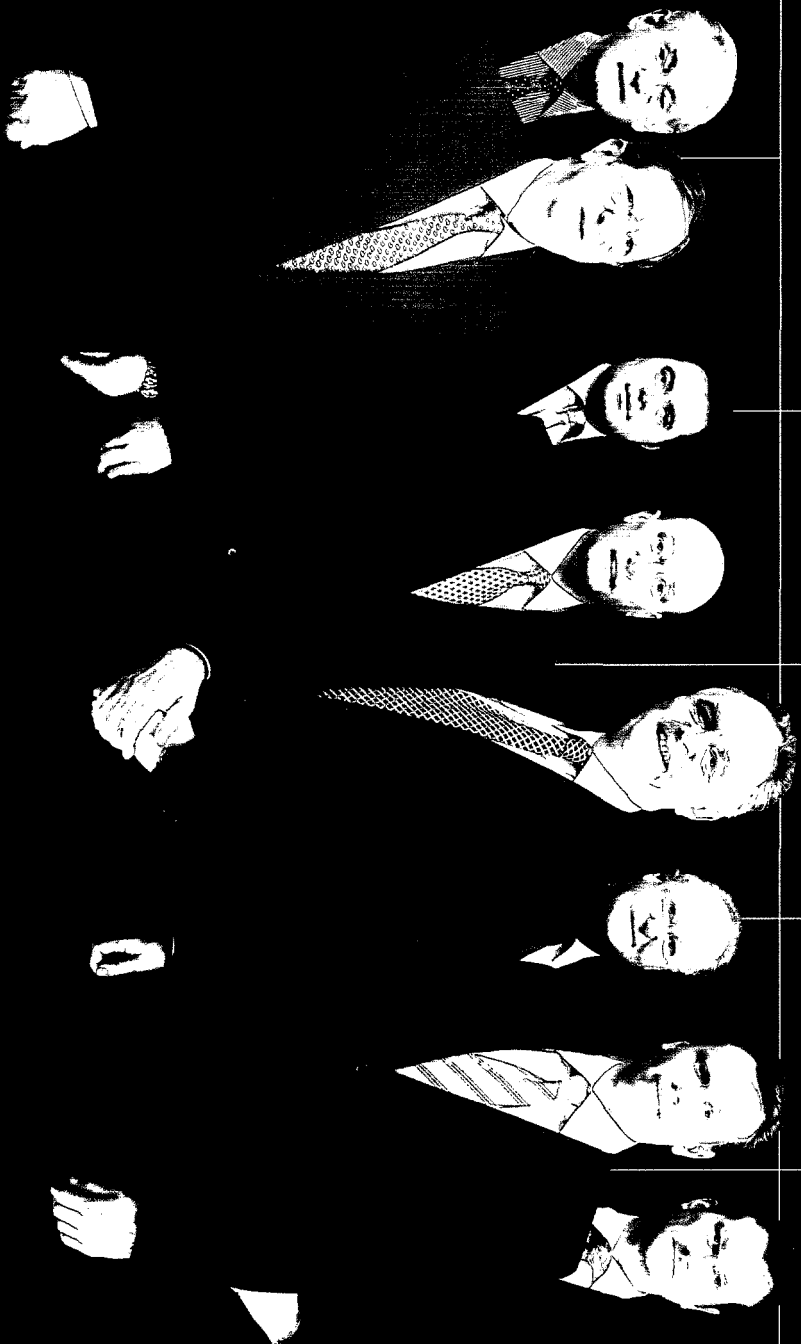
Returning value to the local community
Another area of great importance for the Group is a successful interaction with the local community. The Group contributes to the local community primarily by employing the local work force – Pokrovskiy Mine has approximately 430 workers from the Zeya District and approximately 300 workers from the Magdagachi District – the two nearest districts to the mining operations.

Education and charity are two areas on which the Group focuses funding and effort. The Group provides support to the school in Tygda (settlement c.14 km from Pokrovskiy), constructed by Peter Hambro Mining in 2003, as well as helping with supplies for the local kindergarten. In 2004, the Group established a number of youth scholarships for locals who are interested in higher education opportunities. Regional social issues such as supporting children and educational organisations, hospitals, local authorities, sporting organisations and security institutions are the focus of the Group's charitable contributions.



THE WORLD BANK
INTERNATIONAL BANKING
FOR RECONSTRUCTION
AND DEVELOPMENT

BOARD OF DIRECTORS



1 Sir Rudolph Agnew
Non-Executive Director

Sir Rudolph was Group Chief Executive and Chairman of Consolidated Gold Fields, the second largest gold producer in the western world in the 1980s. He has been also a director of Anglo American, Gold Fields of South Africa and Newmont Mining.

2 Peter Hill-Wood
Non-Executive Director

Mr Hill-Wood is Chairman of Arsenal Football Club and an advisor to Top Technology Ventures Ltd. He was formerly vice-Chairman of Hambros Bank and Chairman of its Investment Division.

3 Jay Hambro
Business Development Director

Mr Hambro trained in resource finance at NM Rothschild & Sons, based in both London and the US and moved to the investment banking division of HSBC as a Manager of Metals & Mining corporate finance, before joining the Group full time in early 2002.

4 Dr Pavel Maslovsky
Deputy Chairman

Dr Maslovsky, formerly professor of plasticity at the Moscow Aircraft Technology Institute, transferred in 1991 to the business world and became Chairman of Pokrovskiy Rudnik in 1994.

5 Peter Hambro
Executive Chairman

Mr Hambro was a banker and then Deputy Managing Director of Mocatta and Goldsmid, responsible for worldwide marketing of its precious metal dealing, banking and derivative services. In 1990 he founded Peter Hambro PLC as a mining finance house in London.

6 Philip Leatham
Finance Director and Company Secretary

Mr Leatham was previously a Chartered Accountant with Spicer and Pegler. He set up his own general accountancy practice in 1985 specialising in small businesses.

7 Alexei Maslovsky
Executive Director and Treasurer

Mr Maslovsky holds a Bachelor of Arts Degree in Economics from the University of Minnesota and is a Certified Retail Gemologist and Diamond Grader. Alexei subsequently worked for Worldco Financial Services in New York.

8 Andrey Maruta
Deputy Finance Director

Mr Maruta is a qualified Chartered Certified Accountant. He started his career in Moore Stephen the audit firm, where he qualified as an accountant in 2001. He joined the Group in 2003 as a group Chief Accountant and was appointed as Deputy Finance Director in January 2005. He is based in London.

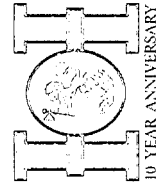
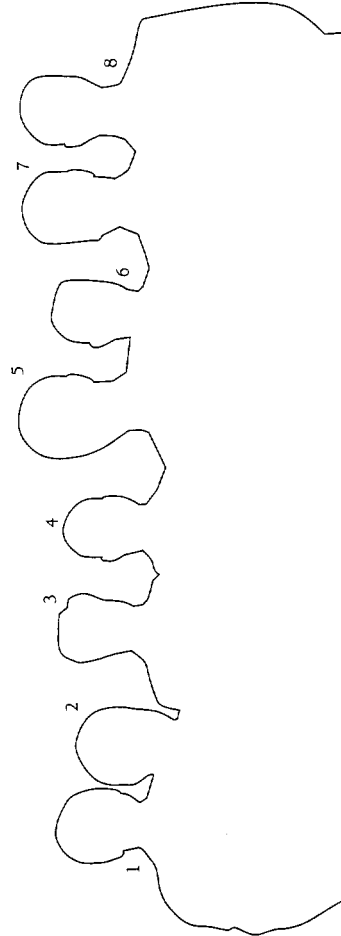
Our Committee Members

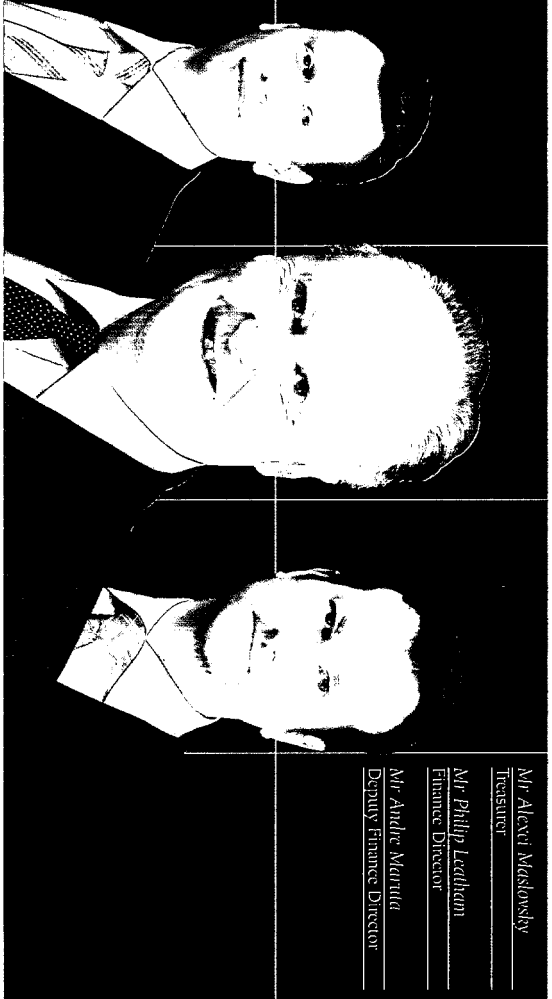
The Audit Committee

Sir Rudolph Agnew
Peter Hill-Wood
Philip Leatham

The Remuneration Committee

Sir Rudolph Agnew
Peter Hill-Wood
Pavel Maslovsky





Mr Alexei Maslowsky

Treasurer

Mr Philip Ledham

Finance Director

Mr Andre Matruia

Deputy Finance Director

FINANCIAL REVIEW

Financial highlights

	Year to 31 December 2004 US\$'000	Year to 31 December 2003 US\$'000	Year to 31 December 2002 US\$'000
Turnover: Group and share of joint ventures	85,502	54,260	22,774
Group turnover	62,108	43,655	22,774
Operating profit	22,703	13,795	10,462
Pre tax profit	24,304	16,257	9,435
Profit retained for the year	15,318	10,383	5,104
Net cash inflow from operating activities	20,532	11,785	6,890
Net cash inflow	11,027	13,439	27

Turnover

Turnover of the Group together with its share of joint ventures increased by 58% compared with last year. Included in this turnover joint ventures Omchak and Rudnoye contributed US\$23.4 million, 56,722 ounces (2003 – US\$10.6m and 28,148 ounces respectively). Gold sales of the Group which excludes turnover from the joint ventures rose by 25.5% in the year 2004 and reached 151,454 ounces (2003 – 120,641 ounces). Gold and minor silver revenues accounted for 99% (2003 – 100%) of the Group's turnover.

The average sales price realised was US\$405 per ounce (2003 – US\$363). We continue our policy of not hedging the price of gold or holding stocks and therefore the price obtained reflects the open market price at the time of sale. The continuing rise of gold price in both dollar and rouble terms contributed additional profitability to the Group.

Results of operations and cash cost analysis

Profits after tax and minority interests for 2004 increased to US\$15.3 million from last year's US\$10.4 million, which represents earnings per share of US\$0.22 (2003 – US\$0.18). The result was achieved by increasing production from the resin-in-pulp plant – up by 25% to 132,700 ounces of gold – and by controlling Gold Institute Standard total cash costs – up only 2% to US\$134.7 per ounce of gold. Savings from economies of scale, together with new equipment, improved blasting techniques and optimisation of mining operations outweighed increases in input costs.

Reconciliation of total cash cost per ounce to Financial Statements

	2004 US\$'000	2003 US\$'000
Cost of sales	30,023	24,242
Administrative expenses	9,382	5,618
Pokrovsky Mine depreciation/amortisation	(5,726)	(4,325)
Other depreciation/ amortisation	(936)	(896)
Non-cash movement in stock	(1,911)	(915)
Exploration costs	(1,029)	(1,118)
Operating costs other than gold production	(3,457)	(2,863)
London operating costs	(5,492)	(3,748)
Silver credits	(124)	(119)
Total cash cost	20,730	15,876

Total cash cost per ounce, US\$/oz	134.7	131.6
Pokrovsky Rudnik ounces produced, oz	153,900	120,641

Currency movements

During the year the rouble continued its appreciation against the dollar. The exchange rates moved from RUR29.45 per US\$1 at 31 December 2003 to RUR27.75 at the year end. Most of our borrowings are dollar denominated whereas non trade debtors and other receivables are mostly stated in roubles, therefore the movement between these two currencies had positive effect on our results for the year. Exchange differences included in our profit figures amounted to a gain of US\$1,334,216 (2003 – gains US\$22,756).

Taxation

The tax charge for the year increased significantly as a result of high tax profits of Pokrovsky Rudnik and other tax charges. The total tax charge, including share of joint ventures, amounted to US\$8,253,000 (2003 – US\$5,270,000).

Balance sheet

Total shareholders' funds were US\$200.1 million compared to US\$115.6 million in 2003. Retained earnings for the year contributed US\$15.3 million to the shareholders' funds. In addition the Group also made a new share issue which contributed to fund new acquisitions and expansion activities during the year.

Overall we have seen a continuing strengthening of our balance sheet during the year demonstrated by net current liabilities of US\$2.3 million at 31 December 2003 turning to net current assets of US\$43.7 million at the end of 2004.

Cash resources and borrowings

Cash and bank balances increased from US\$14.8 million at the end of 2003 to US\$25.9 million at 31 December 2004. Our net debt at 1 January 2004 of US\$18.5 million was eliminated and transformed into a positive net cash position amounting to US\$13.3 million at the end of the current year.

The Group has been pursuing negotiations with a number of mining project finance providers and has received several indications of appetite. The Group has a forecast capital expenditure requirement of approximately US\$150 million on the Pokrovsky expansion and Pioneer construction and development. For a number of years we have been strategically developing the balance sheet to meet this funding need and as such there is a substantial net cash balance. We believe that the Group has sufficient funds, forecast cash flow and debt finance proposals to provide for this capital expenditure programme.

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32	Company only Balance Sheet
33	Consolidated Statement of Cash Flow
35	Reconciliation of Net Cash Flow to Movement in Net Debt (Note 31)
36	Notes to the Financial Statements

THE DIRECTORS' REPORT

Directors

Peter C.P. Hambro
 Dr Pavel A. Maslowsky
 Sir Rudolph Agnew
 Philip W. Leatham FCA
 G. Jay Hambro
 Alexei P. Maslowsky
 Peter Hill-Wood
 Andrey Maruta was appointed by the Board as a Director on 13 January 2005

Secretary and registered office

On 10 May 2005 Philip W. Leatham ceased to be a Secretary of the Company and on the same day Anna-Karolina Subczynska-Samberger was appointed by the Board as a Secretary of the Company.

The Registered Office of the Company remains at 11 Grosvenor Place, London SW1X 7HH.

The Directors present their report and the audited financial statements for the year ended 31 December 2004.

Review of activities and future development

The Group's principal activities during the year were:

- Exploration, mining of gold and the development of facilities at Pokrovskiy Rudnik
- Acquisitions, exploration and development of reserves at Pokrovskiy and Pioneer Amur north-east belt, YamalZoloto and portfolio assets.
- Evaluation of potential acquisition and joint venture opportunities in gold mining in Russia.
- Issue of 10,000,000 shares in June 2004.

The Directors report a consolidated profit for the period of \$15,318,000 (2003 – profit of \$10,383,000). No dividend has been recommended and the profit for the period has been transferred to reserves.

Future developments are included in the Statement of the Chairman and Deputy Chairman.

Directors' interests

The directors were appointed at the dates as shown above and were all serving at the year end. Their interests in the share capital of the Company at the beginning and end of the year were as follows:

G. Jay Hambro, Alexei P. Maslowsky, Philip W. Leatham – no interest as at 31 December 2004 or 31 December 2003.

Peter Hill-Wood – owned 0.02% of the Company or 20,000 ordinary shares as at 31 December 2004 (2003 – 0.02% of the Company or 20,000 ordinary shares).

Sir Rudolph Agnew – owned 0.01% of the Company or 7,500 ordinary shares as at 31 December 2004 (2003 – 0.01% of the Company or 7,500 ordinary shares).

Pavel A. Maslowsky – owned directly and beneficially 26.82% of the Company or 19,844,524 ordinary shares as at 31 December 2004. As at 31 December 2003, Pavel A. Maslowsky owned directly and beneficially 35.70% of the Company or 22,844,524 ordinary shares.

Peter C.P. Hambro – owned beneficially 8.84% of the Company or 6,539,800 ordinary shares as at 31 December 2004. As at 31 December 2003 Peter C.P. Hambro owned beneficially 11.78% of the Company or 7,539,800 ordinary shares.

In addition, the Directors' interests in C shares in Eponymousco (a 100% subsidiary of the Company) were as follows:

	31 Dec. 04	31 Dec. 03
C shares – (share incentive scheme)		
Peter C.P. Hambro	349,684	349,684
Pavel A. Maslowsky	1,379,684	1,379,684
Philip W. Leatham	830,000	830,000

Substantial shareholders

The Directors have been notified of the following substantial shareholders as at 31 December 2004

Name	Amount of shares	% of issued share capital
Pavel A. Maslowsky and associates	19,844,524	26.82
Nitraco Nominees Ltd	9,103,938	12.30
Peter C.P. Hambro and associates	6,539,800	8.84
Viscaria Investments Ltd*	5,499,071	7.43
Morstan Nominees Ltd	4,743,500	6.41
Littledown Nominees Ltd	4,164,692	5.63
State Street Nominees Ltd	2,390,000	3.23

*Excluding shares held beneficially by Pavel A. Maslowsky

THE DIRECTORS' REPORT CONTINUED

Corporate Governance

Corporate Governance

The Directors are aware of the Combined Code applicable to listed companies. As a Company whose shares are traded on AIM, the Company is not required to comply with the Combined Code but all Directors intend to comply with its main provisions as far as is practicable having regard to the size of the Group.

Board structure and its committees

At 31 December 2004 the Board comprised five Executive Directors, including the Chairman and Deputy Chairman, and two Non-Executive Directors. On 13 January 2005 Andrey Maruta was appointed as Deputy Finance Director and Philip Leatham became a Non-Executive Director but retaining responsibility as Finance Director. The Board meets quarterly throughout the year and as issues arise which require Board attention.

Biographies of the Directors are set out on page 21 of this annual report.

The Chairman, Peter Hambro, conducts Board and shareholder meetings and ensures that all Directors are properly briefed. The Directors are responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments. The Directors have access to independent professional advice at the Company's expense and to the Company Secretary and receive appropriate training where necessary.

There are transparent procedures for the appointment of new Directors to the Board and all Directors are required to retire by rotation at least every three years when they can offer themselves for re-election if eligible. Peter Hill-Wood, Peter C.P. Hambro and Sir Rudolph Agnew retired and were re-appointed at the last AGM on 28 May 2004. In view of the size of the Company, the Directors do not consider the Combined Code recommendation to establish a Nomination Committee appropriate at present. The Company has established Audit and Remuneration Committees, details of which are provided below.

The Company's independent directors, Sir Rudolph Agnew and Peter Hill-Wood, are well-established in the business world and contribute a wealth of experience to the Company. Their involvement in other business ventures and the fact that they do not hold notifiable interests in the Company nor have any discloseable relationships with the Company, its shareholders or other Board members allows them to provide an independent and unfettered view of the Company.

Audit Committee

An Audit Committee has been established and currently comprises Peter Hill-Wood as Chairman, Sir Rudolph Agnew and Philip Leatham (who was appointed an Audit Committee member on 8 February 2005, following the resignation of G. Jay Hambro). It meets at least

twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. It liaises with the auditors and reviews the reports from the auditors relating to the accounts and internal control systems.

Remuneration Committee

A Remuneration Committee has been established and currently comprises Sir Rudolph Agnew, Peter Hill-Wood and Pavel Maslovsy. It reviews the performance of the Executive Directors and sets the scale and structure of their remuneration on the basis of their service agreements with due regard to the interests of the Shareholders and the performance of the Group. The Remuneration Committee also makes recommendations to the Board concerning employee incentives, including the allocation of share issues to employees. Directors of the Group are not permitted to participate in discussions or decisions of the committee concerning their own remuneration.

Frequency of Board and Committee meetings

Type of meeting	Number of meetings held	Fully attended
Board meeting	8	5
Audit Committee *	2	2
Remuneration Committee	2	2

* Both Audit Committee Meetings were also attended by the Company Directors and auditors.

Relations with shareholders

Communications with shareholders are considered important by the Directors. The Group has a full-time Director of External Relations whose job is to ensure the maximum possible level of transparency between the Group, its shareholders and analysts. The Directors regularly speak to investors and analysts during the year. Company circulars and press releases have also been issued throughout the year and since the balance sheet date in relation to various proposals and keep investors informed about the Group's progress.

The Company also maintains a website on the Internet at www.peterhambro.com which is regularly updated and contains a wide range of information about the Group.

Board performance evaluation

The Board understands that in order to increase the effectiveness of its operation a fresh external look at the Board's performance is sometimes needed. For this reason and to bring its standard closer to the requirements of the Combined Code on Corporate Governance the Company has recently appointed MC Luyens Consulting Services to carry out an independent Board Performance Evaluation.

THE DIRECTORS' REPORT CONTINUED

Corporate Governance continued

Internal controls

The Board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and for reviewing its effectiveness. The procedures which include inter alia financial, operational and compliance matters and risk management are reviewed on an ongoing basis. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. In October 2004 the Group appointed an internal Auditor whose role is to report to the Audit Committee and the Board.

Risks and uncertainties

The principal risks facing the Company are those relating to the volatility of the gold market, reliance on the expertise of the key Company personnel, as well as risks connected with uncertainties of the Russian political and legal systems, including taxation and currency fluctuations.

Going concern

After making enquiries, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Key performance indicators

The Company's performance is measured against the Key Performance Indicators (KPIs) as analysed in detail from pages 1-22 of the Report and in the Financial Review. This analysis can be summarised as follows:

Turnover in 2004 has increased by 58% compared to 2003.
Attributable gold production has increased by 40% between 2004 and 2003.
GIS Total Cash Cost is up by only 2% and reached \$134.7/oz (2003 – \$131.6/oz).
Average realised gold sales price increased from \$363/oz in 2003 to \$405/oz in 2004.
Net debt of \$18.5 million at 1 January 2004 eliminated and transformed into a positive Net Cash position amounting to \$13.3 million at 31 December 2004.
Increasing production of resin-in-pulp plant up by 25% to 132.7 thousand oz of gold.

Remuneration

In addition to complying with the main provisions of the Combined Code as far as is practicable having regard to the size of the Group, the Company is committed to the principles of good governance relating to Directors' remuneration.

Remuneration policy

The composition of the Remuneration Committee and the terms of reference are detailed above. The remuneration policy is designed to attract, motivate and retain Directors with necessary skills and experience to manage the Group's operations.

Directors' remuneration and interests in shares

Details of Directors' interests in shares are set out on page 24.

Remuneration packages of Executive Directors currently comprise basic salary and bonus. At present the Company runs pension plans for G. Jay Hambro as disclosed in Note 5 and Andrey Maruia (pension plan commenced in February 2005).

Service contracts

No Directors have any service contracts, consultancy agreements or other such arrangements with a notice period in excess of one year.

Supplier payment policy

It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangement negotiated with suppliers and then to pay according to those terms based upon receipt of an accurate invoice. Trade creditor days for the year ended 31 December 2004 were 36 days on average for the Group and 25 days on average for the Company.

Employees

Regular meetings are held with employee representatives to discuss strategies and the financial position of the Group and their own business unit.

The Group is committed to provide equal opportunity for individuals in all aspects of employment.

Auditors

The Company's auditors, Moore Stephens, are willing to continue in office. A resolution for their reappointment and authorising the Directors to fix their remuneration will be submitted to the Annual General Meeting.

By Order of the Board

Anna-Karolina Subczynska-Samberg
Secretary
12 May 2005

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

for the year ended 31 December 2004

United Kingdom Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Peter C.P. Hambro
12 May 2005

Pavel A. Maslowsky
12 May 2005

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF PETER HAMBRO MINING PLC

We have audited the financial statements of Peter Hambro Mining PLC for the year ended 31 December 2004, set out on pages 29 to 64. These financial statements have been prepared under the historical cost convention, and the accounting policies set out on pages 36 to 39.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required by law to do not accept, or assume responsibility for anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the Directors' Report and the other information contained in the annual report as set out in the index on the inside front cover and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 December 2004 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

St. Paul's House,
Warwick Lane, London
EC4M 7BP
12 May 2005

Moore Stephens
Registered Auditor
Chartered Accountants

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004 (expressed in US\$'000s)

	Note	2004 \$'000	2003 \$'000
Turnover: Group and share of joint ventures			
Less: share of joint ventures' turnover	2	85,502 (23,394)	54,260 (10,605)
Group turnover	3	62,108 (39,405)	43,655 (29,860)
Net operating expenses	4	22,703	13,795
Operating profit	14	-	930
Profit on disposals of discontinued operations		4,829	3,690
Share of operating profit in joint ventures		(954)	(391)
Amortisation of goodwill in joint ventures			
Profit on ordinary activities before interest and other income		26,578	18,024
Interest payable and similar charges	6	(3,661)	(2,536)
Other income	7	1,387	769
Profit on ordinary activities before taxation		20,916	13,082
Group		3,388	3,175
Joint ventures			
Taxation on profit on ordinary activities	8	24,304 (8,253)	16,257 (5,270)
Profit on ordinary activities after taxation		13,801	8,738
Group		2,250	2,249
Joint ventures		16,051	10,987
Minority interests			
Group	27	(326)	(193)
Joint ventures		(407)	(411)
Profit retained for the year	26	15,318	10,383
Earnings per ordinary share	34	\$0.22	\$0.18
Diluted earnings per ordinary share	34	\$0.21	\$0.17

The Group's turnover for the year has been generated by the Company's subsidiaries Pokrovskiy Rudnik and NPFG Regis (2003 – Pokrovskiy Rudnik only).

The business of the Group is conducted mainly within one business segment and in one geographic location, consequently no segmental analysis is presented.

There are no recognised gains or losses other than those included in the profit and loss account.

The accompanying notes are an integral part of this profit and loss account.

CONSOLIDATED BALANCE SHEET

for the year ended 31 December 2004 (expressed in US\$'000s)

	2004 \$'000	2003 \$'000
Fixed assets		
Intangible assets		
Goodwill	(2,776)	-
Other intangible assets	80,653	71,173
Capitalised exploration and development expenditure	10,251	2,159
Deferred stripping costs	1,597	-
Tangible assets		
Property, plant and equipment	60,579	39,163
Investments		
Investments in joint ventures:		
Goodwill	1,399	2
Share of gross assets	2,821	2,969
Share of gross liabilities	(10,188)	(8,135)
Loans	3,400	2,614
	169,102	124,390
Current assets		
Stock and work in progress	15,697	11,355
Debtors	17,784	13,621
Cash at bank and in hand	25,854	14,827
Creditors, amounts falling due within one year	(59,335)	(39,803)
	(15,607)	(42,144)
Net current assets/(liabilities)	43,728	(2,341)
Total assets less current liabilities	212,830	122,049
Creditors, amounts falling due after one year		
Due to former shareholders of subsidiary	(3,486)	(3,284)
Long-term borrowings	(4,655)	-
Finance lease liabilities falling due after one year	(243)	(895)
	(8,384)	(4,179)
Provision for liabilities and charges	(2,182)	(1,504)
	(202,264)	(116,366)
Net assets	202,264	116,366

CONSOLIDATED BALANCE SHEET CONTINUED

for the year ended 31 December 2004 (expressed in US\$'000s)

	Note	2004 \$'000	2003 \$'000
Capital and reserves			
Share capital – ordinary shares	23	1,193	1,010
Share premium	24	154,252	85,252
Merger reserve		8,755	8,755
Contingent reserve on acquisition	25	6,304	6,304
Share incentive reserve	23	40	40
Profit and loss account		29,590	14,272
Equity shareholders' funds		200,134	115,633
Equity minority interests	27	2,130	733
		202,264	116,366

The accompanying notes are an integral part of this balance sheet.

These financial statements were approved by the Board of Directors on 12 May 2005.

On behalf of the Board

Peter C.P. Hambro

Pavel A. Maslovsky

COMPANY ONLY BALANCE SHEET

for the year ended 31 December 2004 (expressed in US\$'000s)

	Note	2004 \$'000	2003 \$'000
Fixed assets			
Tangible assets			
Property, plant and equipment	12	188	179
Investments	14	79,047	77,684
Loans	16	3,400	2,614
Current assets		82,635	80,477
Debtors	17	54,857	11,907
Cash at bank and in hand		20,438	9,385
Creditors, amounts falling due within one year	18	75,295	21,292
		(1,808)	(12,938)
Net current assets		73,487	8,354
Net assets		156,122	88,831
Capital and reserves			
Share capital	23	1,193	1,010
Share premium	24	154,252	85,252
Contingent reserve on acquisition	25	6,304	6,304
Profit and loss account		(5,627)	(3,735)
Equity shareholders' funds	25	156,122	88,831

The accompanying notes are an integral part of this balance sheet.

These financial statements were approved by the Directors on 12 May 2005.

On behalf of the Board

Peter C.P Hambro

Pavel A. Maslovsky

CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 December 2004 (expressed in US\$'000s)

	Note	2004 \$'000	2003 \$'000
Net cash inflow from operating activities	29, 30	20,532	11,785
Returns on investments and servicing of finance			
Interest received		892	463
Interest paid		(2,965)	(3,721)
Interest element of finance leases		(1,111)	(301)
Dividends paid to minority shareholders		(113)	(140)
Net cash outflow from returns on investments and servicing of finance		(3,297)	(3,699)
Taxation paid		(4,223)	(3,264)
Capital expenditure and financial investment			
Purchase of tangible assets		(20,393)	(8,539)
Expenditure on research/development and mineral properties		(9,181)	(2,144)
Investments acquired		-	(3,736)
Proceeds on sales of investments		2	4,562
Proceeds on disposal of tangible assets		25	-
Loans issued		(1,894)	(3,804)
Loans issued to joint venture undertakings		(480)	(340)
Net cash outflow on capital expenditure and financial investment		(31,921)	(14,001)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(11,785)	(6,002)
Cash acquired with subsidiaries		103	179
Proceeds from sales of subsidiary undertakings		2,112	(22)
Investments in joint ventures		(3,817)	(3,623)
Net cash outflow on acquisitions and disposals		(13,387)	(9,468)
Cash outflow before financing		(32,296)	(18,647)
Management of liquid resources and financing			
Capital element of finance leases		(6,114)	(1,099)
Receipts from borrowings		56,376	59,254
Repayments of amounts borrowed		(76,124)	(51,728)
Net receipts from issuing shares		69,185	25,659
Net cash inflow from financing activities		43,323	32,086
Increase in cash at bank and in hand	31	11,027	13,439

During the year 2004 the Company capitalised \$840,472 of interest costs to assets under construction.

CONSOLIDATED STATEMENT OF CASH FLOW CONTINUED

for the year ended 31 December 2004 (expressed in US\$'000s)

Major non-cash transactions

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of \$5,001,734. These leasing arrangements were terminated and fully repaid before the end of 2004.

During the year, amounts of \$1,030,000 of Russian VAT receivable, \$61,000 of Property tax payable and \$11,000 of Other taxes payable were set off against Corporate Tax.

The accompanying notes are an integral part of this cash flow statement.

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (NOTE 31)

for the year ended 31 December 2004 (expressed in US\$'000s)

	2004 \$'000	2003 \$'000
Increase in cash at bank and in hand	11,027	13,439
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	25,862	(6,427)
Change in net debt resulting from cash flow	36,889	7,012
Loans disposed with subsidiary	-	309
New finance leases	(5,002)	(988)
Exchange difference	(141)	(647)
Movement in net debt in the period	31,746	5,686
Net debt at 1 January	(18,475)	(24,161)
Net cash/(debt) at 31 December	13,271	(18,475)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

1. Principal accounting policies

a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards.

b) Basis of consolidation

The financial statements consist of Peter Hambrö Mining Plc (the Company) and its respective subsidiary undertakings (the Group). On the acquisition of a business, including an interest in a subsidiary undertaking, fair values are attributed to the Group's share of net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

c) Comparative figures

Certain comparative figures have been restated to be consistent with the current year's presentation.

d) Currency of financial statements

The financial statements have been presented in US dollars as the dollar is considered to be the Group's functional currency.

For the purpose of these financial statements other currencies have been translated into US dollars on the following basis:

- Share capital, fixed assets and depreciation at the rate ruling on the date of the relevant transaction.

- Liabilities and current assets at the rate ruling at the end of the accounting year.

- Profit and loss account items, other than depreciation, at the average rate for the year or at the rate ruling at the date of the transaction for significant items.

The accounting records of the Company's Russian subsidiary and joint venture undertakings are maintained in Russian roubles. All transactions are translated into US dollars at the average annual exchange rate and monetary assets and liabilities are retranslated into US dollars at the current rate at each balance sheet date. All differences are taken to the profit and loss account.

The rates of exchange used to translate year end balances from other currencies into US dollars were as follows (currency per US dollar):

	2004	2003
sterling	0.52	0.56
Russian rouble	27.75	29.45

Exchange differences arising on the application of the above policy to individual transactions and accounts have been dealt with through the profit and loss account. The representation of figures in US dollars should not be construed as meaning that underlying amounts can or will be settled in dollars.

e) Goodwill

Goodwill represents the excess of the fair value of consideration given for the purchase of a subsidiary over the fair value of net assets acquired. Amortisation is provided through the profit and loss account on a straight-line basis over the period deemed appropriate by the Directors.

Negative goodwill is accounted for when the fair value of net assets acquired on the purchase of a business exceeds the purchase price. Negative goodwill is initially recorded as a negative asset and then recognised through the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

1. Principal accounting policies continued

f) Intangible assets and amortisation

Intangible assets are recorded at cost less amortisation and provision for diminution in value. Licences for the exploitation of natural resources are amortised on a straight-line basis over the period of the licence.

g) Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life or the life of the relevant licence whichever is less as follows:

	Average life
Buildings	20
Plant and machinery	5-20
Vehicles	7
Office equipment	5-10
Computer equipment	3

Until they are brought into use fixed assets are included within assets under construction and equipment to be installed.

The cost of maintenance, repairs and replacement of minor items of tangible fixed assets are charged to current expenditure. Renewals and betterments are capitalised. Upon sale or retirement of tangible fixed assets, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the profit and loss account.

The cost of tangible fixed assets includes directly attributable finance costs on expenditure incurred during construction. Capitalised finance costs are calculated on a day-to-day basis.

h) Investments

Investments are stated at cost less provision for impairment.

i) Stock and work in progress

Purchased stores and spares are stated at the lower of cost and net realisable value on a unit cost basis. Gold ready for sale is valued at the lower of cost and net realisable value. Costs are attributed to gold produced on an average cost basis. Bullion in process is valued at the lower of cost and net realisable value.

Poor ore (with content less than 3.5 g/t), ore in the process of leaching and leached ore are classified as work in progress. Poor ore and ore in the process of leaching are valued at the lower of attributable direct cost and net realisable value.

Leached ore is valued at the lower of post processing transportation costs (to its current location) and net realisable value. Leached ore is classified as work in progress.

j) Deferred stripping costs

Stripping costs incurred during the production phase to remove waste ore are deferred to the balance sheet and charged to operating costs on the basis of the average life of the mine stripping ratio.

The average stripping ratio is calculated as the number of cubic metres of waste material removed per tonne of ore mined. The average life of the mine ratio is revised annually in the light of additional knowledge and change in estimates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

Principal accounting policies continued

Finance and operating leases

Assets held under finance leases are capitalised in the balance sheet and are depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. Interest is charged to the profit and loss account over the life of the agreement and represents a constant proportion of capital repayments outstanding.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

Revenue recognition

Revenue is recognised at the point of transfer of ownership of finished products as specified in the sales contracts.

Revenue from bulk sample sales made during the exploration or development phases of operations is recognised as a sale in the profit and loss account.

Cost of sales

Cost of sales includes the cost of mining gold, transport, and other direct expenses.

Exploration and evaluation expenditure is charged to the profit and loss account as incurred except in respect of deposits where:

it is expected that the expenditure will be recouped by future exploitation or sale; or
substantial exploration and evaluation activities have identified a mineral resource but these activities have not reached a stage which permits a reasonable assessment of the existence of commercially exploitable reserves.

Where either of the above conditions are met direct expenditure is capitalised. Once production begins capitalised costs are written off to production so as to spread them over total estimated reserves.

Taxation

Provision is made for all foreseeable taxation liabilities.

Deferred taxation is calculated so as to recognise the expected future tax consequences of transactions and events recognised in the financial statements of the current and previous periods with the following exceptions:

- Provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that at the balance sheet date dividends have been declared and accrued as receivables.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be taxable profit from which the future reversal of the timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

The tax charge in the profit and loss account includes the change in respect of the taxable profit for the year calculated under UK taxation laws and foreign profit tax. All other taxes, including those based on gross revenue received, are included in general, administrative and other operating costs in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

1. Principal accounting policies continued

a) Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become party to the contractual provisions of the instrument.

p) Environment protection, rehabilitation and closure costs

Provision is made for close down, restoration and for environment clean up costs, where there is a legal or constructive obligation to do so. The provision is reviewed on an annual basis for any changes in cost estimates or lives of operations.

q) Defined contribution pension scheme

The Company operates a defined contribution pension scheme for the benefit of its employees. The funds of the scheme are administered by independent trustees and are separate from the Company. Contributions are recognised as they fall due.

2. Turnover

	Group	
	2004	2003
	\$'000	\$'000
Group turnover	62,108	43,655
Share of joint venture Omchak	23,095	10,586
Share of joint venture Rudnoye	299	19
	85,502	54,260

Turnover is derived from the Group's single principal activity of mining, mineral processing and exploration and dealing in metals and concentrates, principally gold and silver. All proceeds are receivable in the ordinary course of business and are recorded exclusive of Value Added Tax.

The Group's turnover for the year has been generated by Pokrovskiy Rudnik and NPFG Regis (2003 – Pokrovskiy Rudnik).

3. Net operating expenses

	Group		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Cost of sales	30,023	24,242	1,019	520
Administrative expenses	9,382	5,618	4,080	3,218
	39,405	29,860	5,099	3,738

Included within Group administrative expenses are foreign currency exchange translation gains of \$1,334,216 (2003 – \$22,756) and gains on disposal of fixed assets of \$12,125 (2002 – \$46,463 losses).

Pokrovskiy Rudnik accounts for \$27,542,997 of the Group's cost of sales (2003 – \$21,430,000) and \$4,999,277 of administrative expenses (2003 – \$ 4,196,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

	Group		Company	
	2004	2003	2004	2003
Operating profit				
Operating profit is stated after charging/(crediting):				
Depreciation of tangible fixed assets	4,805	3,266	52	7
Less: depreciation capitalised	(86)	-	-	-
Amortisation of intangible assets	4,719	3,266	52	7
Less: negative goodwill amortisation	1,958	1,958	-	-
Directors' emoluments	(16)	-	-	-
Auditors' remuneration	2,013	1,622	1,781	1,489
Statutory audit	203	85	103	85
- Audit related regulatory reporting	46	27	46	27
- Corporate finance advice	75	31	75	31
- Taxation	27	8	27	8
Profit/loss on disposal of tangible fixed assets	(12)	46	-	-

okrovskiy Rudnik generated \$29m (2003 - \$18m) of operating profit. \$717,830 of depreciation on tangible fixed assets arose on assets held under finance leases (2003 - \$635,800).

Directors and employees

	Group		Company	
	2004	2003	2004	2003
Directors' emoluments	2,013	1,622	1,781	1,489

Staff costs during the period were as follows:

	Group		Company	
	2004	2003	2004	2003
Wages and salaries - production	4,396	3,431	-	-
Wages and salaries - other	3,455	1,890	790	380
Social security costs	2,253	1,471	177	139
	10,104	6,792	967	519

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

5. Directors and employees continued

The average number of employees (excluding seven Directors) during the year was:

	Group		Company	
	2004	2003	2004	2003
Production	1,353	1,002	—	—
Administration	334	270	7	6
	1,687	1,272	7	6

The emoluments for the highest paid Director for the year were \$496,251 (2003 – \$524,523).

During 2002 the Group implemented a share incentive scheme. Under the scheme participating employees have subscribed for 2,759,368 C ordinary non-voting, non-dividend bearing shares in Epynousco at a par value of £0.01. These are to be converted into ordinary shares in the Company on the earlier of Epynousco by the Company or 1 June 2005 for a supplementary payment of £1.01. On 3 March 2005 the Board of the Company resolved to delay the conversion of C shares into the Company shares in order to ensure that this conversion does not take place at a time when the holders of the C shares are considered insiders. The shares subscribed for have been recognised as a reserve until such time as the C shares are converted into ordinary shares (see Note 23).

The Directors' interests in the share incentive scheme are disclosed in the Directors' Report.

Pokrovskiy Rudnik operates a Reserve Bonus Scheme for senior executives of that company. Under the scheme participants will be awarded freely transferable 'scheme units' at the end of each year from 2002 to 2012 based on \$5 per ounce of gold added to the designated reserve bonus scheme.

The holders of the Reserve Bonus Units have, once again, re-evaluated the effect of the scheme on the affairs of the Group and its shareholders. In light of this, subject to clarification of the Russian and UK tax consequences for both the holders and the Company, the holders have indicated a willingness to implement such a scheme that would be of the most benefit to them and the Group's shareholders. The Committee of Independent Directors is awaiting a re-evaluation of reserves and resources at Pioneer in June/July 2005 and will review the implementation of such a scheme with advice from the Company's advisors and independent consultants as necessary and will make a recommendation in due course. Once received, approval of the recommendation will be sought from shareholders at the earliest opportunity.

A defined contribution pension scheme has been implemented for G. Jay Hambro. The scheme is based on the current percentage of net relevant earnings pertaining to G. Jay Hambro of 17.5% of his stated salary. The total amount payable to the scheme during the year was \$19,198 (2003 – \$8,678). The outstanding contributions at 31 December 2004 totalled \$nil (2003 – \$nil).

Pokrovskiy Rudnik contributes through social security payments to an employees' Russian state pension scheme. This is a defined contribution scheme. In 2005 the Company implemented a defined contribution pension scheme for its employees.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
6. Interest payable and similar charges				
Finance lease charge	1,111	301	-	-
Commission and interest in respect of sale and lease back transaction (Note 22)	496	-	-	-
Bank loan interest – continued operation	2,200	2,880	699	-
Bank loan interest – discontinued operation	-	40	-	-
Other loan interest and charges	207	338	50	8
Share of joint ventures' interest payable and similar charges	487	124	-	-
	4,501	3,683	-	-
Less finance cost capitalised	(840)	(1,147)	-	-
	3,661	2,536	749	8

In March 2004 the Company received a loan from HVB of \$15 million which was drawn down in two tranches in March and May 2004 and fully repaid in June 2004. HVB commission and interest expense in relation to this loan accounted to \$699,377 in 2004.

7. Other income

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Other income – continuing operations	255	286	3,832	1,240
Other income net – discontinued operations	-	31	-	-
Interest receivable	1,132	452	542	64
	1,387	769	4,374	1,304

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

8. Taxation

The Company does not anticipate a corporation tax charge for the period as all profits/losses arise in its subsidiaries and the Company itself has suffered losses. The tax charge for the subsidiaries was \$6,479,086 (2003 ~ \$2,926,193) for the period ended 31 December 2004, based on a tax rate of 24%.

With the exception of the tax penalties and charges disclosed below the Directors believe that there have been no material breaches of Russian tax regulations and that these financial statements contain all necessary provisions in respect of the Group's tax liabilities in Russia. However Russian tax and currency control regulations are in a state of flux and may be subject to differing interpretations by various governmental bodies. Fines and penalties for any errors and omissions could be significant.

	Group	
	2004	2003
	\$'000	\$'000
Current tax:		
UK corporation tax on profits for the year	–	–
Foreign tax (24%)	5,469	2,926
Tax penalties*	1,010	–
Total current tax	6,479	2,926
Deferred tax:		
Origination and reversal of timing differences	636	1,418
Total deferred tax	636	1,418
Tax related to joint venture Omchak		
Profit tax (24%)	1,222	794
Deferred tax (release)	(85)	132
	1,137	926
Tax related to joint venture Rudnoye		
Profit tax (24%)	1	–
	1	–
Tax on profit on ordinary activities	8,253	5,270

* Tax penalties relate to Pokrovskiy Rudnik's breaches of certain Russian tax regulations for the periods prior to 2003.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

Taxation continued
 The tax assessed for the year is higher than the standard rate of corporation tax. The differences are explained below:

	Group 2004 \$'000	Group 2003 \$'000
Group profit on ordinary activities before tax	20,916	13,082
Added: loss on the Company's ordinary activities before tax	1,892	2,444
Added: loss on other Non-Russian companies' ordinary activities before tax	50	13
	22,858	15,539
Less: profit on ordinary activities multiplied by standard rate of corporate tax in Russia of 24% (2003 - 24%)	5,486	3,729
Capital allowance for year in excess of depreciation	(156)	(192)
Interest capitalised for the year	(202)	(281)
Indirect costs of stock	(616)	(821)
Investment disposals	207	(219)
Lease change	(223)	(263)
Exchange difference	601	557
Expenses not deductible for tax purposes	606	242
Adjustment to tax charge in respect of previous year	161	174
Deferred stripping costs	(395)	-
	5,469	2,926
	2,004	2,003
Deferred tax	\$'000	\$'000
Fixed assets timing differences	1,657	2,276
Differences in tax values of stock	1,400	(112)
Development expenses timing differences	136	-
Timing difference on investments	(91)	-
Timing difference on tax on disposal of investments (Note 14)	-	503
Timing differences on lease operations	(389)	(680)
Timing difference on sale and lease back transactions	(1,946)	-
Other timing differences	(131)	(569)
	636	1,418

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

9. Goodwill	Group 2004 \$'000
Cost	
At 1 January 2004	-
Goodwill arising on additional acquisition of JV Omchak	(2,776)
Goodwill arising on acquisition of NPPFG Regis	(16)
Goodwill written off	16
At 31 December 2004	(2,776)
Amortisation	
At 1 January 2004	-
At 31 December 2004	-
Net book value	
At 1 January 2004	-
At 31 December 2004	(2,776)

In April 2004 the Group increased its share of the Joint Venture Omchak to 65% in accordance with the original joint venture agreement. Negative goodwill of \$2,776,422 has arisen as a result of acquiring the additional 15% of the joint venture for \$1. No share of the negative goodwill was recognised in the profit and loss account as the Group's share of the joint venture can change every year under the terms of the original joint venture agreement and will reduce on receipt of dividends from the joint venture in 2005.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

10. Other intangible assets

	Group 2004 \$'000
Cost	
At 1 January 2004	75,942
Additions as a result of acquisition of a subsidiary (Note 33)	11,427
Additions	11
At 31 December 2004	87,380
Amortisation	
At 1 January 2004	4,769
Charge for the year	1,958
At 31 December 2004	6,727
Net book value	
At 1 January 2004	71,173
At 31 December 2004	80,653

Other intangible assets comprise mineral properties such as gold licences and rights over other mineral resources.

11. Capitalised exploration and development expenditure

	Group 2004 \$'000
Cost	
At 1 January 2004	2,159
Additions	8,092
At 31 December 2004	10,251
Amortisation	
At 1 January 2004	-
At 31 December 2004	-
Net book value	
At 1 January 2004	2,159
At 31 December 2004	10,251

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

<i>12. Property, plant and equipment</i>						
Group		Mining assets \$'000	Vehicles \$'000	Furniture, fixtures, fittings and others \$'000	Construction in progress \$'000	Total \$'000
Cost						
At 1 January 2004		34,251	5,640	1,182	4,572	45,645
Reclassification to the cost of the licence						
Additions as a result of acquisition		5	19	1	-	25
Additions		2,602	7,578	661	15,395	26,236
Transfer from construction in progress		6,577	219	114	(6,910)	-
Disposals		(10)	(15)	(7)	-	(32)
At 31 December 2004		43,425	13,441	1,951	13,057	71,874
Depreciation						
At 1 January 2004		4,211	1,994	277	-	6,482
Additions as a result of acquisition		5	19	1	-	25
Charge for the year		3,095	1,383	327	-	4,805
Disposal		(1)	(12)	(4)	-	(17)
At 31 December 2004		7,310	3,384	601	-	11,295
Net book value						
At 31 December 2003		30,040	3,646	905	4,572	39,163
At 31 December 2004		36,115	10,057	1,350	13,057	60,579

The net book value of the Group's mining assets includes \$1,735,708 (2003 - \$2,096,733) in respect of assets held under finance leases. The net book value of the Group's vehicles includes \$1,086,213 (2003 - \$1,443,019) in respect of assets held under finance leases.

The net book value of the Group's mining assets also includes \$6,759,396 (2003 - 0) in respect of assets sold and leased back. The net book value of the Group's vehicles includes \$3,410,658 (2003 - 0) in respect of assets sold and leased back. The liability in respect of the sale and lease back transaction is disclosed in Note 22.

At 31 December 2004 mining assets with a net book value of \$5,465,476 (2003 - \$30,862,000) were pledged as security for the short-term and long-term loans disclosed in Note 18 and Note 22.

At 31 December 2004, fixed assets were insured to a value of approximately \$40.4 million (2003 - \$8.2 million) with Russian registered insurance companies.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

12. Property, plant and equipment continued

Company	Furniture, fixtures, fittings and others \$'000		Total \$'000
Cost			
At 1 January 2004	186	186	186
Additions	61	61	61
At 31 December 2004	247	247	247
Depreciation			
At 1 January 2004	7	7	7
Charge for the year	52	52	52
At 31 December 2004	59	59	59
Net book value			
At 31 December 2003	179	179	179
At 31 December 2004	188	188	188

13. Stock and work in progress

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Stores and spares	4,405	2,498	-	-
Work in progress	11,276	8,627	-	-
Bullion in process	16	166	-	-
Bullion in stock	-	64	-	-
	15,697	11,355	-	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

13. Stock and work in progress continued

	Group		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Work in progress to be completed within one year	7,622	2,182	-	-
Work in progress to be completed after more than one year	3,654	6,445	-	-
	11,276	8,627	-	-

Work in progress comprises leached ore, ore in the process of leaching and poor ore.

14. Investments

	Group		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Investments - other	36	-	-	-
Shares in subsidiaries and joint ventures	1,363	2	79,047	77,684
	1,399	2	79,047	77,684

Movement in shares in subsidiaries and joint ventures is as follows:

As at 1 January 2004	2	77,684
Additions in the year:		
OTC Limited	-	2
Olga	500	500
Management Company PHM	861	861
As at 31 December 2004	1,363	79,047

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

14. Investments continued

The Company and the Group have the following material subsidiaries and other significant investments, which were consolidated in these financial statements:

Principal subsidiary and joint venture undertakings	Country of incorporation	Principal activity	Principal country of operation	Effective proportion of shares held
Held directly by the Company				
Eponymosco Ltd	United Kingdom	Holding Company	United Kingdom	100%
Victoria Resources Ltd *	United Kingdom	Holding Company	United Kingdom	100%
Peter Hambro Mining (Cyprus) Ltd	Cyprus	Holding Company	Cyprus	100%
Management Company PHM	Russia	Holding Company	Russia	100%
Olga	Russia	Gold exploration and production	Russia	100%
Pokrovskiy Rudnik **	Russia	Gold exploration and production	Russia	97.7%
Joint Venture Omchak	Russia	Gold exploration and production	Russia	65%
Held indirectly via 100% owned subsidiaries				
Tokurskiy Rudnik	Russia	Gold exploration and production	Russia	100%
GRK Victoria	Russia	Gold exploration and production	Russia	100%
Held indirectly via Pokrovskiy Rudnik				
YamalZoloto	Russia	Gold exploration and production	Russia	88%
NPEF Regis	Russia	Exploration work	Russia	51%
Joint Venture Rudnoye	Russia	Gold exploration and production	Russia	49%

* The Company holds 50% of the Group's total holding of 100% of Victoria Resources Ltd. The other 50% of the share capital is held by Eponymosco Ltd. Victoria Resources Ltd has a 100% subsidiary GRK Victoria which is a holder of a gold exploration and production licence over the Chagayansk greenfield deposit. It is intended that Rio Tinto will fund the exploration work in return for an interest in the equity.

** The Company holds 44.57% (2003 – 44.57%) of the Group's total holding of 97.68% (2003 – 97.68%) of the ordinary share capital of Pokrovskiy Rudnik. The further 53.11% of the share capital is held by Eponymosco Ltd (2003 – 53.11%).

In December 2004 the Company set up a wholly owned Russian holding company Management Company PHM (MCPHM). MCPHM is intended to carry on the management and mining activities of the Group in return for a fee while the other companies retain ownership of licences. The total amount of cash the Company contributed was \$862,103 of which \$432,456 was still outstanding at the end of 2004. Management Company PHM has not been consolidated in the Group accounts as it did not have any activity in 2004 and the balances are not material to the Group.

In December 2004 the Company also acquired 100% of the share capital of a gold exploration and mining Company Olga. Olga has a gold exploration and mining licence and is located in the Amur region of Russia. The Company paid \$500,000 for the whole share capital of Olga. An amount of \$5,000 was still outstanding at 31 December 2004. Olga has not been consolidated in the Group accounts as it did not carry out any activity in 2004 and the balances are not material to the Group.

During the year 2004 Pokrovskiy Rudnik acquired 90% of the share capital of YamalZoloto for a total consideration of \$10.4 million. As part of the total consideration Pokrovskiy Rudnik paid \$5.1 million under the fee to Tekhgranstroy, a Russian registered company.

In 2004 Pokrovskiy Rudnik acquired 52.05% of exploration and development company NPEF Regis. This company is involved in carrying out exploration and development work for various subsidiaries of the Group as well as to third parties located in the Amur region.

On 30 December 2003 Pokrovskiy Rudnik disposed of its shareholdings in Olekminskiy Rudnik and Chemelt as part of the divestiture to Arcom Plc of the Group's titanium and iron ore subsidiary undertakings. The profit on disposal for the Group was US\$939,503. A consideration of US\$2.1 million in respect of the disposals was subsequently received in 2004.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

15. Investments in joint ventures

The Group's share of the net assets of its joint ventures comprise the following:

	Joint venture Omchak 2004 \$'000	Joint venture Rudnoye 2004 \$'000	Total 2004 \$'000	Total 2003 \$'000
Goodwill	2,821	-	2,821	2,969
Fixed assets	4,341	759	5,100	3,544
Current assets	16,086	180	16,266	10,901
Total gross assets	23,248	939	24,187	17,414
Liabilities due within one year	(6,907)	(178)	(7,085)	(5,493)
Liabilities due after one year or more, including minority interest	(2,312)	(791)	(3,103)	(2,642)
Total gross liabilities	(9,219)	(969)	(10,188)	(8,135)

The Group's share of the results of Joint Venture Omchak for the year were as follows:

Turnover	\$'000	23,095
Profit before tax	3,519	1,136
Tax	-	-
Profit after tax	3,519	2,383

The Omchak joint venture was originally created for the purpose of bidding for a mining licence. Under the Omchak joint venture agreement the Russian shareholders (Susumanzoloto and Shkolnoye) are required to ensure that their assets contributed to the joint venture generate income sufficient to declare and pay dividends in the first five years of the joint venture's operations of not less than \$7,200,000 in aggregate. If the required level of dividends is not paid the Group's interest in the joint venture will be increased.

The amount of dividends paid during 2004 was \$321,728 and the Group's interest in the joint venture increased to 65% in April 2004 in accordance with the terms of the original joint venture agreement.

The Group's interest in Omchak is treated as an investment in a joint venture as it is jointly controlled by the Group and the other Russian shareholders under a contractual agreement. Fluctuations in the percentage interest in the joint venture does not change joint control over Omchak as none of the parties can control the entity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

16. Loans

Amounts falling due after more than one year

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Loan issued to Aricom Plc	3,400	2,614	3,400	2,614
	3,400	2,614	3,400	2,614

The loan to Aricom Plc bears interest at 8% per annum and is secured against 1,000 issued and fully paid up ordinary shares of Russian Titan Company Ltd, representing 100% of the issued share capital. The loan was repaid on 18 March 2005 with the exception of US\$10 and the facility remains in place.

The loan facility granted to Aricom Plc is up to \$6,000,000 and repayable within five years (Note 28).

17. Debtors

Amounts falling due within one year

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Prepayments	4,655	3,077	140	181
VAT recoverable	7,325	4,187	44	34
Owed by Group undertakings	-	-	54,541	10,156
Other debtors	2,538	4,294	132	1,536
Loan to Rudnoye joint venture	822	340	-	-
Loans issued	2,444	1,723	-	-
	17,784	13,621	54,857	11,907

Loans issued include an amount of \$2 million (2003 – \$1.3 million) to Interomax (Note 28). The loan was subsequently repaid in February 2005. \$15,426,000 of debtors are Rouble denominated (2003 – \$10,578,000).

An interest rate analysis of loans issued is set out in Note 36.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
18. Creditors				
Amounts falling due within one year				
Trade creditors	1,968	2,180	-	-
Tax liability	1,418	349	-	-
Finance lease liabilities (Note 21)	652	1,112	-	-
Note payable	-	8,000	-	8,000
Short-term loans	4,137	11,795	-	-
Short-term element of long-term loans (Note 22)	2,895	11,500	-	-
Due to former shareholders of subsidiary (Note 20)	1,516	1,428	-	-
Due to Group undertakings	-	-	519	513
Due to Omchak joint venture	-	3,817	-	3,817
Due to MC PHM	432	-	432	-
Other creditors	2,589	1,963	857	608
	15,607	42,144	1,808	12,938

The short-term loans have been made to the Company's subsidiaries by banks and trading partners and are partly secured over various fixed assets and ore stockpiles.

\$10,096,000 of total creditors are rouble denominated (2003 - \$11,860,000).

19. Provision for liabilities and charges

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Provision for restoration and closing costs	128	86	-	-
Deferred tax provision	2,054	1,418	-	-
	2,182	1,504	1,504	86
Provision at 1 January 2004	-	-	-	-
Charge for restoration cost	42	-	42	86
Deferred tax charge in profit and loss account for year	636	-	636	-
Provision at 31 December 2004	2,182	1,504	1,504	1,418

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

20. Due to former shareholders of subsidiary

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Short-term element	1,516	1,428	-	-
Long-term element	3,486	3,284	-	-
	5,002	4,712	-	-

The amount due to former shareholders comprises dividends payable by Pokrovskiy Rudnik, of which \$3,485,929 (2003 - \$3,284,048) is owed to Pavel A. Maslovsky and the management of Pokrovskiy Rudnik.

21. Finance lease liabilities

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Short-term element	733	1,334	-	-
Finance charge allocated to future periods	(81)	(222)	-	-
	652	1,112	-	-
Due between 1-2 years	256	733	-	-
Due between 2-3 years	-	256	-	-
Finance charge allocated to future periods	(13)	(94)	-	-
	243	895	-	-
Total obligation	895	2,007	-	-

22. Long-term borrowings

	Group		Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Due in less than 1 year	2,895	11,500	-	-
Due between 1-2 years	2,895	-	-	-
Due between 2-3 years	1,760	-	-	-
	7,550	11,500	-	-
Short-term element	2,895	11,500	-	-
Long-term element	4,655	-	-	-
	7,550	11,500	-	-

As at 31 December 2004, the only long term loans outstanding were three loans from Moscow International Bank repayable by instalments until 2007. The loans are dollar denominated and arose as a result of sale and lease back transactions in 2004. An interest rate profile of the Group's borrowings is shown at note 36.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

23. Called up equity share capital

	Company	
	2004 \$'000	2003 \$'000
Ordinary shares		
Alotted, called up and fully paid:		
At the beginning of the period	1,010	751
Issued in exchange for 100% holding in Peter Hambro Mining (Cyprus) Ltd	-	101
Other new issues	183	158
At the end of the year	1,193	1,010
Number of shares (par value £0.01)	No. '000	No. '000
Authorised	100,000	100,000
Issued at the beginning of the period	63,999	47,985
Issued in exchange for 100% holding in Peter Hambro Mining (Cyprus) Ltd	-	6,000
Other new issues	10,000	10,014
At the end of the year	73,999	63,999

In June 2004 the Company issued 10,000,000 shares at an issue price of £4.00 per share. As a result of these transactions a share premium of \$69 million after commissions and share issue costs of \$4.2 million was created.

Convertible C shares of Eponymousco

	Company	
	2004 \$'000	2003 \$'000
Alotted, called up and fully paid:		
At the beginning of the year	40	40
At the end of the year	40	40
Number of shares (par value £0.01)	No. '000	No. '000
Authorised	2,759	2,759
At the beginning of the year	2,759	2,759
At the end of the year	2,759	2,759

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

4. Share premium reserve

	Group	
	2004	2003
	\$'000	\$'000
Opening balance		34,636
Issue of share capital	85,252	52,256
Share issue costs incurred in the year	(4,227)	(1,640)
At the end of the year	154,252	85,252

5. Contingent reserve on acquisition

	Group	
	2004	2003
	\$'000	\$'000
Opening balance		—
Issue of contingent shares	6,304	6,304
At the end of the year	6,304	6,304

6. Equity shareholders' funds

	Group		Company	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Opening balance	115,633	48,071	88,831	34,096
Issue of share capital	69,183	50,875	69,183	50,875
Issue of contingent shares	—	6,304	—	6,304
Profit/(loss) for the year	15,318	10,383	(1,892)	(2,444)
At the end of the year	200,134	115,633	156,122	88,831

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as a part of these accounts.

The availability of the Group's reserves for distribution will be determined, to the extent that they include reserves held in the Russian subsidiary and joint venture undertakings, by applicable legislation in Russia and in accordance with the Russian subsidiary and joint venture undertakings' statutory financial statements. The Russian subsidiary and joint venture undertakings' statutory financial statements are prepared in accordance with Russian accounting regulations. These differ significantly from UK GAAP. The distributable reserves may therefore differ significantly from the figure shown above.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

	Group	
	2004 \$'000	2003 \$'000
27. Minority interests		
At the beginning of the year	733	540
Minority interest eliminated on acquisition of subsidiary undertakings	1,183	—
Dividends payable	(113)	—
Minority interest in net profit of subsidiary undertakings	327	193
At the end of the year	2,130	733

All minority interests are equity interests.

28. Related party transactions

The Group had the following related party transactions during the year. VAT is included where applicable.

Related party	Description	Movement for	Amount due	Movement for	Amount due
		the year 2004 \$'000	from/(due to) 2004 \$'000	the year 2003 \$'000	from/(due to) 2003 \$'000
Peter Hambro Plc	Management and accommodation charge	(74)	(12)	(60)	(20)
Anicom Plc and subsidiaries	Loan facility	786	3,400	2,614	2,614
Anicom Plc and subsidiaries	Interest income	193	—	—	—
Anicom Plc and subsidiaries	London expenses recharged	175	122	502	502
Anicom Plc and subsidiaries	Exploration work	286	—	—	—
Anicom Plc and subsidiaries	Expenses recharged	229	229	—	—
Anicom Plc and subsidiaries	Subsidiaries disposals	—	—	2,112	2,112
Anicom Plc and subsidiaries	Feasibility study	—	—	1,212	1,212
Total Anicom Plc		1,669	3,751	6,440	6,440
Former shareholders of subsidiary	Dividends due	(202)	(3,486)	(241)	(3,284)
Tynda Forest Holdings Ltd	Loan to Interomax	748	2,041	1,293	1,293

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

38. Related party transactions continued

Peter Hambro Plc is considered a related party due to Peter C.P. Hambro's 51% holding in that company.

Ancom Plc, is considered a related party due to Peter C.P. Hambro and Pavel A. Maslovsky's share holdings and directorships in that company. Transactions with Ancom Plc during the year are disclosed in Note 15.

The loan to Interomax was fully repaid in February 2005.

Creditors include an amount of \$3,485,929 relating to dividends payable to Pavel A. Maslovsky and the management of Pokrovskiy Rudnik.

Peter C.P. Hambro, Pavel A. Maslovsky and certain management of Pokrovskiy Rudnik are the participants of a Reserve Bonus Scheme established by Pokrovskiy Rudnik. Details of the Scheme are set out in Note 5.

An ultimate controlling party of the Company has not been identified.

29. Net cash inflow from operating activities

Group	2004 \$'000	2003 \$'000
Cash received from customers	62,155	43,573
Cash paid to suppliers and employees	(27,914)	(20,564)
Other proceeds	255	59
Other expenses	(13,964)	(11,283)
Net cash inflow from operating activities	20,532	11,785

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

	2004	2003
Group	\$'000	\$'000
<i>30. Reconciliation of operating result to operating cash flow</i>		
Operating profit before tax and minority interest	20,916	13,082
Adjusted for:		
Depreciation	4,719	3,266
Amortisation of intangibles	1,958	1,958
Restoration cost provision	42	—
Interest payable and similar charges	3,174	2,412
Interest receivable	(1,132)	(516)
(Gain)/loss on disposals of fixed assets	(12)	46
Profit on disposals of trading investments	—	(196)
Profit on disposals of subsidiary undertakings	—	(930)
Elimination of unrealised profit in Joint Venture	(101)	—
Exchange differences in respect of finance activity	141	647
Exchange differences in respect of minority shareholders' dividends	292	351
Goodwill amortisation	(16)	—
Operating profit before working capital changes	29,981	20,120
(Increase) in debtors	(5,762)	(5,198)
(Increase) in stock	(4,342)	(3,886)
Increase in creditors	655	749
Net cash inflow from operating activities	20,532	11,785

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

11. Reconciliation of cash flow to net cash
 Analysis of balances as shown in the balance sheet and changes during the year.

	Group	
	2004	2003
	\$'000	\$'000
Cash at the beginning of the year	14,827	1,388
Cash flows for the year	11,027	13,439
Cash at the end of the year	25,854	14,827

32. Analysis of net cash/(debt)

	At 1 Jan. 04 \$'000	Cash flow \$'000	Other non-cash changes \$'000	Exchange movement \$'000	At 31 Dec. 04 \$'000
Cash in hand and at the bank	14,827	11,027	-	-	25,854
Debt due within one year	(31,295)	27,298	-	(141)	(4,138)
Net (debt)/cash pre-leasing/sales and lease back	(16,468)	38,325	-	(141)	21,716
Finance leases/sales and lease back	(2,007)	(1,436)	(5,002)	-	(8,445)
Net (debt)/cash inc. leasing	(18,475)	36,889	(5,002)	(141)	13,271

The amount of cash flow from debt due within one year is net of the loan from HVB of \$15 million which was drawn down in two tranches in March and May 2004 and fully repaid in June 2004.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

33. Acquisition of subsidiary undertakings

a) *Victoria Resources Ltd*
 In 2004 the Company acquired 50% of the Group's total holding of 100% of Victoria Resources Ltd. The other 50% of the share capital was acquired by Eponymousco Ltd. Victoria Resources Ltd acts as a holding company for 100% of the share capital of GRK Victoria.

b) *YamalZoloto*
 In April 2004 Pokrovskiy Rudnik acquired 90% of the share capital of YamalZoloto for a consideration of \$10.4 million. As part of the total consideration Pokrovskiy Rudnik paid \$5.1 million as commission.

The fair values of the assets and liabilities on the date of acquisition were:

	YamalZoloto Book value \$'000	Fair value adjustment \$'000	Total \$'000
Intangible assets (Note 10)	-	11,427	11,427
Capitalised exploration and development expenditure	434	-	434
Profit tax prepayment	89	-	89
Debtors	92	-	92
Cash	28	-	28
Creditors due within one year	(164)	-	(164)
Creditors due after one year	(386)	-	(386)
Fair value of net assets acquired	93	11,427	11,520
Less: Minority interest			(1,152)
			10,368
Consideration			
Cash			10,368
			10,368

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

33. Acquisition of subsidiary undertakings continued

(i) NPFG Regis

In 2004 Pokrovskiy Rudnik acquired 52.05% of exploration and development company NPFG Regis. This company is involved in carrying out exploration and development work to various subsidiaries of the Group as well as to third parties located in the Amur region.

The fair values of the assets and liabilities on the date of acquisition were:

	NPFG Regis book value \$'000	Fair value adjustment \$'000	Total \$'000
Debtors	10	-	10
Cash	74	-	74
Tax liability	(4)	-	(4)
Creditors due within one year	(16)	-	(16)
Fair value of net assets acquired	64	-	64
Less: Minority interest			(31)
Goodwill arising on acquisition (Note 9)			(16)
			17

Consideration

Cash	17
	17

34. Earnings per ordinary share

	2004	2003
Profit for the year \$'000	15,318	10,383
Weighted average number of ordinary shares	69,615,032	58,767,529
Earnings per ordinary share	\$0.22	\$0.18
Weighted average number of ordinary shares	69,615,032	58,767,529
C shares	2,759,368	2,759,368
Contingent shares	1,500,000	803,571
Weighted average number of diluted shares	73,874,400	62,330,468
Diluted earnings per share	\$0.21	\$0.17

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

35. Currency and commodity price risk

Although the Group is headquartered in the United Kingdom, sterling denominated monetary assets and liabilities at 31 December 2004, were not significant.

Because of the location of its operating activities in Russia, Pokrovskiy Rudnik and other Russian subsidiary and joint venture undertakings are necessarily involved in Russian rouble transactions and have rouble denominated balances. The Group incurs operating costs in roubles and the Group's borrowings at 31 December 2004 were largely denominated in US dollars.

The world market for gold is principally denominated in US dollars. Within Russia sales prices are set with reference to the US dollar but settlements are made in roubles.

Recent trends in the rouble/dollar exchange rate suggest that the rouble is gaining value against the dollar. If this trend continues and results in any significant and sustained appreciation of the rouble against the dollar the Group's revenue and profitability could be affected. The Company does not engage in hedging to minimise exchange rate risk and has no intention of implementing such a scheme unless future financing arrangements require the Company to do so.

The Group does not hedge its exposure to gold price fluctuation risk. Gold is sold at market spot rates.

36. Financial assets and liabilities

The interest rate profile for the Group's borrowings was

	Fixed rate borrowing \$'000	2004 Interest free \$'000	Total \$'000	Fixed rate borrowing \$'000	2003 Interest free \$'000	Total \$'000
US dollar	8,650	-	8,650	21,196	8,000	29,196
Rouble	2,973	65	3,038	2,037	62	2,099
Capital element of finance lease, US dollar	895	-	895	2,007	-	2,007
	12,518	65	12,583	25,240	8,062	33,302

The weighted average interest rate on the Group's interest bearing borrowings for 2004 was

US dollar	10%
Rouble	8%
US dollar finance lease	15%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2004

36. Financial assets and liabilities continued

The interest rate profile for the Group's financial assets was

	2004				2003			
	Fixed rate	Floating rate	Interest free	Total	Fixed rate	Floating rate	Interest free	Total
Cash – US dollar, rouble and GBP	–	20,487	5,367	25,854	–	1,443	13,384	14,827
US dollar	5,441	–	–	5,441	3,907	–	–	3,907
Rouble	1,004	–	221	1,225	263	–	507	770
	6,445	20,487	5,588	32,520	4,170	1,443	13,891	19,504

The weighted average rate on the Group's interest bearing financial assets was 4.15% in 2004 (2003 – 10.9%).

The fair values of the Group's financial assets and liabilities are not materially different to the book values.

37. Commitments under operating leases

At 31 December 2004 the Company had annual commitments under a non-cancellable operating lease of the office premises as set out below.

Expiring:	Group		Company	
	2004	2003	2004	2003
After 5 years	\$'000	\$'000	\$'000	\$'000
	249	104	249	104

During the year \$209,665 (2003 – \$31,702) of operating lease costs were charged under administrative expenses.

38. Capital commitments

Amounts contracted for but not provided for in the financial statements amounted to \$3,750,558 for the Group.

39. Post balance sheet events

In April 2005 the Company succeeded in meeting the stringent requirements of the World Bank environmental and social guidelines resulting in the IFG investing \$15 million by subscribing for 1,448,545 of new Peter Hambro Mining Plc shares at £5.50 (the 'Investment Price') and has been granted an option to subscribe an additional \$15 million at a 25% premium to the Investment Price.

The Group announced in February 2005 that it had been successful in the auction of the licence over the Malonit gold property. The Group paid 22 million roubles (about \$0.79 million) for the licence.

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